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# **Country Commercial Guide 2003-04**

## **Honduras**

Prepared by  
The U.S. Embassy  
Tegucigalpa, Honduras

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## **I. EXECUTIVE SUMMARY**

Generally, U.S. exporters enjoy an enviable position in the Honduran market. Over the past decade, U.S. exports have increased both in terms of absolute dollar value and, more importantly, in terms of market share. Strong prospects for exports of goods and services are not limited to a few industries but run the gamut, including: franchising; food processing; auto parts and service equipment; safety and security equipment; computers and peripherals; computer services; telecommunications; textiles and equipment; and electric power generation equipment. Honduran imports of oils and lubricants, industrial chemicals, plastic materials, paper and related products, electrical materials and equipment and medical supplies all showed increases in 2002.

The U.S. is Honduras' chief trading partner, supplying over half of Honduras' imports and purchasing about half of its total exports. In addition, at USD 54.5 million, the U.S. continues to be the dominant source of foreign direct investment (FDI) in Honduras, representing 38 percent of total FDI. The Honduran government is generally open to foreign investment. Restrictions and performance requirements are fairly limited. Honduras is the third largest exporter of apparel and textile products to the U.S. market behind Mexico and China, and the first among Central America and countries enjoying Caribbean Basin Initiative benefits.

However, a slowed economy during the last two years has had its effect on the demand for U.S. goods. The Honduran economy maintained slow growth during 2002, growing at just 2.5 percent. Since the population growth rate is approximately 2.6 percent, Honduras has experienced essentially zero real per-capita growth over the last two years.

President Ricardo Maduro entered office in January 2002. His administration continues to be pro-business and supportive of free trade. The Honduran government remains focused on promoting private sector investment as a key strategy for improving the country's infrastructure. The top priorities of the administration include spurring activity in tourism, light manufacturing, agribusiness, forest products and housing construction. Government owned enterprises continue to operate the port system, telephone monopoly, electricity distribution, highways and postal system. The Maduro administration plans to proceed with additional privatization and liberalization between late 2003 to 2005.

The close proximity of Honduras to the United States and recognition of the high quality and reliability of American products constitute advantages for U.S. exporters and manufacturers.

For marketing purposes, the country can be thought of as divided into two regions: the North Coast, including San Pedro Sula, the country's commercial and industrial capital; and the Central region, where Tegucigalpa, the political capital and largest city, is located. Tegucigalpa and San Pedro Sula are the major distribution centers for imported products. A single distributor or representative is sufficient to cover all of Honduras. Representatives and distributors tend to carry rather broad lines on a non-exclusive basis.

Price is among the most important selling factors in Honduras. In many cases, Honduran business people buy directly from the source if they feel that the cost-savings

is sufficiently advantageous. The local banking system is conservative and generally extends only limited amounts of credit. U.S. exporters that offer attractive financing terms on sales to Honduran traders have the best chance of gaining market share. The duty assessed by the Honduran government at the time of customs clearance ranges from 0 to 15 percent for most items.

Hondurans tend to be more relaxed than Americans and keeping a schedule is not as important in Honduras. Written contracts are used as a means to formalize verbal agreements between trusted colleagues. A good personal relationship with prospective customers is basic to penetrating the market.

In terms of personal security, crime is a major concern with theft, pick pockets and armed robberies occurring frequently in urban areas. Honduras also has a very high incidence of murder and kidnapping, although American tourists and business people are not generally targets of violent crime.

Prospects for the Central American region are bright. Central America offers a market of 32 million people with annual manufacturers imports from the U.S. of more than USD 9 billion. This makes Central America a greater market today for U.S. exporters than many markets where the competition and travel distance is much greater. Worker remittances from families in the U.S. are an important source of foreign exchange and help to guarantee funding for continued imports of U.S. goods and services. But more importantly, regionalization is quickly becoming a fact for business. Although the U.S. has begun negotiations with the Central American countries towards a free trade agreement, most companies are not waiting. Factories and distribution facilities have been and are being located to serve a regional market. Rarely does a U.S. businessperson visit just one Central American country. New investors weigh the advantages each country offers as they look to locate new plants. Regional managers are becoming the norm with responsibilities for multiple countries within the market. Trade among the countries of Central America has increased dramatically. Leading sectors for U.S. exports and investment include safety and security equipment, automotive parts & service equipment, computers and peripherals, food processing and packaging equipment, textile machinery, equipment & fabrics, franchising and electrical power systems.

The reality in Central America and Honduras today is that there are problems: corruption, drug trafficking, and poverty to name a few. But there is also relative stability, real market opportunities and substantial U.S. exports in a market that is close to the U.S. and growing. Regional integration will spur investment, growth, trade and continued market opportunities for U.S. firms.

## **II. ECONOMIC TRENDS & OUTLOOK**

### **A. Major Trends and Outlook**

The Honduran economy remained slow during 2002. Real GDP growth fell to 2.5 percent from 2.6 percent in 2001 and 6.3 percent in 2000. Since the population growth rate is also about 2.5 percent, Honduras has experienced essentially zero real per-capita growth over the last two years. That said, Honduras' Real GDP growth was the second highest in Central America, following only Costa Rica's 2.8 percent growth.

Construction declined by 14.6 percent, while a 4.8 percent increase in agricultural activity was lead by increased corn production (22.0 percent), rice (21.2 percent) and beans (43.8 percent). Labor conflicts and bad weather conditions negatively affected the banana harvest and sugar production respectively causing a combined export loss of USD 44.7 million compared with revenues from bananas and sugar in 2001.

Total 2002 expenditures of the Central Government were USD 1.582 billion, (26.773 billion lempira), 4 percent higher than 2001 mostly due to a 16.7 percent increase in salaries and a 4.7 percent increase in goods and services expenditures. The current account deficit declined by 17 percent to USD 243 million, representing 3.7 percent of GDP, down from a deficit of 293.4 million in 2001. The current account deficit was aided by a reduction in imports, and an increase in overseas net transfers created by a larger flow in family remittances which grew from USD 533 million in 2001 to USD 704.3 million in 2002. Interest rates continued to decline in 2002, due in part to the Central Bank's monetary policy which included the elimination of obligatory investment requirement into the financial system allowing for more liquidity and resources for the productive sector. The average nominal interest rates on new operations in foreign currency for loans and deposits were 9.4 percent and 2.6 percent respectively. Consumer prices rose by 8.1 percent in 2002, slightly lower than the 8.8 percent registered in 2001, continuing the declining tendency seen over the past 5 years. Net international reserves were USD 130.5 million, USD 10 million higher than expected. Export revenues decreased by approximately 1.5 percent from 2001 registering at USD 1.37 billion for 2002, USD 665.2 million in exports went to the U.S. alone. The decrease in export revenues for 2002 is attributed mostly to lower exports of banana, shrimp, soaps and detergents.

Honduras' national currency, the lempira, remains strong and experienced an annual depreciation of just 6.3 percent from 15.92 lempira to the dollar at the end of 2001 to 16.92 lempira to the dollar at the end of 2002. Open unemployment in 2002 declined to 3.8 percent, down from 3.9 percent in 2001 (using the ILO definition); however hidden underemployment is considered much higher. Invisible sub-employment jumped from 24 percent reported in 2001, to 26.6 percent in 2002, an indication that the majority of the emerging labor force is entering the informal economy. Coffee has once more become Honduras' top export product with revenues totaling USD 182.5 million in 2002; a 14 percent increase from 2001 but still not equivalent to pre-Hurricane Mitch levels of USD 430 million as reported for 1998. Banana export revenues dropped below coffee again totaling USD 172.4 million, down from 204.2 million earned in 2001. According to Central Bank data, the flow of foreign direct investment (FDI) in Honduras in 2002 totaled USD 143 million. At USD 54.5 million, the U.S. continues to be the dominant source of FDI in Honduras, representing 38 percent of all foreign direct investment.

The official foreign debt of Honduras for 2002 was about USD 4.96 billion, and the service of that debt (currently suspended) would be equivalent to USD 583.5 million, or about 43 percent of Honduras' USD 1.37 billion in export revenue. In 2002, Honduras received USD 48.8 million in debt relief under the HIPC initiative. Of this relief, USD 35.5 million are resources to be used for the financing of the Poverty Reduction Strategy. The IMF and the Honduran Government negotiated wording for a letter of intent in late 2003, but problems with constitutional wage requirements continue to hinder the process.

## **B. Principal Growth Sectors**

The agricultural and livestock sector, traditionally the most important area of economic activity in Honduras, accounted for about 13 percent of GDP in 2002, and employed more than 40 percent of the work force. Aided by mildly recovering world prices, coffee accounted for 21.6 percent of all Honduran exports in 2002, up from just 12 percent in 2001. Coffee revenues increased to USD 182.5 million compared to USD 160 million in 2001, but still well below the USD 340 million recorded in 2000. Banana exports dropped significantly to USD 172.4 million, down USD 31.8 million from the USD 204.2 million in exports recorded in 2001, equivalent to a drop of 15.6 percent in value, and 8 percent in volume. Sugar exports are the largest reported drop to exports totaling just USD 17.5 million. Sugar exports declined 39 percent at a loss in value to the Honduran economy equaling USD 12.9 million.

The Honduran textile (maquiladora) sector apparel and textile export revenues in 2002 totaled USD 2.44 billion, an increase from USD 2.34 billion in 2001. The value added in 2002 increased by 16.4 percent, registering USD 833.5 million compared to USD 716 million in 2001. Honduras is the third largest exporter of apparel and textile products to the U.S. market and the first among Central America and countries enjoying Caribbean Basin Initiative benefits. National investment in 2002 in the textile and apparel industry was USD 737.1 million. Foreign investment in the sector is USD 826.6 million. By December 2002, total employment in the sector fell to 107,400 jobs, a loss of approximately 2,700 jobs compared to December 2001. The continued international economic slowdown is the principal reason for the decrease in employment. Textile and apparel exports to the U.S. appear to continue rebounding in early 2003.

## **C. Government Role in the Economy**

Honduran economic policy has undergone substantial liberalization in recent years, with an emphasis on lower tariffs and reduced trade barriers, limited restrictions on foreign investment, elimination of price controls, and gradual decentralization. Regulatory requirements, although streamlined in recent years remain time consuming and costly. Rapidly growing public sector wages and a predominance of administrative personnel has contributed to fiscal problems and difficulties in expanding the levels and quality of social services.

**Budget priorities:** Of the 2003 Honduran government's approved budget of USD 1.89 billion about 49 percent will be destined for social sector expenses, including education, health, energy and transportation subsidies, and social security; 16 percent will be allotted to public works.

**Privatization:** On March 9, 2000, the Honduran Government awarded through public bid a twenty-year renewable concession to operate the country's four international airports, beginning October 2000, to a U.S.-led consortium. Government owned enterprises continue to operate the port system, telephone monopoly, electricity distribution, highways and postal system. The Maduro administration plans to proceed with additional privatization and liberalization in the coming years.

Some of the more than USD 200 million provided to the Honduran government for modernization of the state was also destined for the privatization of government-owned public services. Work began in 1994 to reform Hondutel, the state telecommunications



entity, whose operations have suffered from technical, financial and managerial deficiencies. The initial steps included the opening of Band A cellular service to the private sector, the creation of a National Telecommunications Commission (CONATEL) to carry out regulatory functions, and the decision to convert the operational part of Hondutel into an entity called COHONDETEL. The Honduran government announced a 'telephony for everyone' project, which opened up Hondutel to private participation with joint ventures for private companies with Hondutel starting late 2003 and in the sale of shares in Hondutel to private interests beginning in 2004 with the goal of full privatization on December 31, 2005.

Private sector electrical energy generation – mostly thermal – normally accounts for around 40 percent of the country's generating capacity. However, due to increased demand, ENEE has contracted out for an additional 175 MW of electricity over the next two years, bringing private sector hydroelectric generation to almost 50 percent of the country's generating capacity.

#### **D. Balance of Payments Situation**

Honduras' current account deficit declined to USD 243 million, equal to 3.7 percent of GDP for 2002, down from USD 326 million in 2001. Exports of goods and services dropped slightly but imports of goods and services also declined by 0.1 percent. Net transfers from abroad rose in 2002 to USD 957 million; the increase of 3 percent in overseas net transfers is mostly the product of a bigger flow in family remittances, which climbed from USD 533 million in 2001 to USD 704.3 million in 2002. Official transfers only accounted for USD 253 million, including assistance from the USG, Japan, Sweden and Spain. Family remittances rose by 32 percent between 2001 and 2002.

The 2002 Honduras' trade deficit was USD 1.43 billion, an improvement of USD 20 million from 2001 figures. Honduran merchandise exports in 2002 increased by 2.2 percent to USD 1.37 billion, while imports declined by 0.2 percent to USD 2.97 billion. Coffee exports picked back up in 2002 to USD 182 million once again surpassing banana exports which raked in USD 172 million, down from USD 204 million in 2001. Wood, sugar, zinc and sugar all reported decreased exports but gold exports remained strong, increasing by USD 17 million to a total revenue in gold exports of USD 80.5 million for 2002. Imports of paper, plastics, industrial chemicals, construction materials and petroleum products continued to increase as well. Total exports, including the apparel sector decreased for the second straight year, dropping to USD 1.37 billion, down 1.5 percent from 2001. After increasing by over 300 percent in 2001, sugar exports declined drastically by 42 percent, bringing in USD 17.5 million in 2002 compared to USD 30.4 million in 2001.

#### **E. Infrastructure**

Airports: Four international airports serve the nation's capital Tegucigalpa, the commercial center of San Pedro Sula, the tourist island of Roatan, and the coastal city of La Ceiba. Three gateway cities (Houston, Miami and New Orleans) are only 2-1/2 hours flying time from Honduras. Several international freight and passenger airlines provide daily direct flights and connections between Honduras and numerous world destinations. Plans to expand the runway and terminal facility at Tegucigalpa continue to be discussed. Though the terminal expansion is underway, the runway expansion will

require various costly land expropriations to be conducted by the Government of Honduras.

The city of San Pedro Sula has a modernized international airport, which could become a hub of regional air travel. This 24-hour a day transportation facility is equipped with a modern control tower, computerized customs facilities, and a comfortable passenger terminal. The San Pedro Sula International Airport handles approximately 32,000 metric tons of cargo and around 500,000 passengers per year.

**Electrical Generating Systems:** Currently, the energy demand in Honduras is growing at about 7.4 percent a year. The National Electrical Energy Company (ENEE) distributes 97 percent of the electricity consumed, the rest is accounted for by industries that generate their own electricity. Though 91.3 percent of the country's urban homes have access to electricity, only 31.8 percent of rural homes enjoy access.

Honduras' current installed electric power generation capacity is 871.6 MW, of which 431.6 MW is hydroelectric, and 440 MW is thermal. Current actual demand in Honduras is 870 MW with a forecasted need for 955 MW of generating capacity for 2004. ENEE and the Government of Honduras recently awarded two twelve-year emergency contracts for an additional 210 MW and 200MW of generating capacity for 2004. The local company who won the 210MW contract is scheduled to begin expanded services next year. The electrical power system in Honduras is comprised of five hydroelectric plants and nine thermal plants, five of which are operated by private power generators. The hydroelectric plant at the El Cajon reservoir has an installed capacity of 300 MW, which represents 35 percent of the country's total generating capacity. Currently all the turbines and the dam are functioning but running at just 66 percent capacity due to expected water shortages.

**Telecommunications:** Access to telecommunications services in Honduras is well below the Latin American average. The installed telephone network capacity of Honduras' state owned monopoly-provider of wired telephony is about 415,131 lines, with 309,702 lines in service. Line penetration for the entire country is 63 percent, with 4.88 telephone lines per one hundred inhabitants. These numbers are expected to improve with the 2003 opening of the market that allows for private companies to enter into joint ventures with Hondutel. Celtel is still the largest cellular service provider, accounting for over 260,629 lines, almost half the market. The concession of a second wireless frequency was awarded to the Swedish / Honduran consortium Megatel-Emce in April of 2003. Megatel began operating in December 2003, but coverage is mostly limited to the principal cities Tegucigalpa and San Pedro Sula. Hondutel remains the only legal company for national and international wired telephony services.

**Ports:** Honduras has ports on both the Atlantic and Pacific Oceans that are served by a number of shipping companies linking the country with the U.S., Asia, Europe, and the rest of the Western Hemisphere. The National Port Authority (E.N.P.), an autonomous governmental institution established in 1965, is responsible for operating Honduras' seaports and providing loading and warehousing services for vessels and merchandise handled at the different ports.

The northern port of Puerto Cortés, Honduras's principal seaport and Central America's largest deep-water port, operates 24 hours a day and is also used for the shipment of goods to and from El Salvador and Nicaragua. Puerto Cortés, located 35 miles from the

industrial city of San Pedro Sula, is among the three main ports in Central America, which handle over 80 percent of the region's total sea cargo. Puerto Cortés caters to a broad range of cargo shippers' needs, including no waiting time and modern Roll-on/Roll-off (Ro/Ro) and containerized facilities. Shipping time to major southern U.S. ports is approximately 48 hours. Honduras has two other ports capable of handling ocean-going freight: Puerto Castilla on the Atlantic and San Lorenzo on the Pacific. Located near most of the shrimp farm activity, the San Lorenzo port is 28 feet deep and has 973 feet of docking space. The Caribbean ports of Tela, La Ceiba and Puerto Lempira can only handle small coastal craft. Most companies in Honduras utilize Puerto Cortés, which controls nearly 90 percent of the country's vessel traffic.

In 2002, Honduran ports handled 7,082,590 metric tons of cargo (64.5 percent imports and 35.5 percent exports), reflecting an increase of compared to 7,072,810 tons handled in 2001. A total of 2,212 ships arrived at Honduran ports during that same period, reflecting a one percent increase over the number of ships served during the previous year.

The ENP is in the midst of a port renovation project that will invest approximately USD 135 million into Honduran ports in 2004. The Port Authority has begun the feasibility studies on all three major projects including, building a bulk solids terminal and new container terminal at Puerto Cortés, and the concession of the port of Roatan. The Honduran government and the Port Authority have contracted a company to complete the Port Facility Security Assessment as required by International Maritime Organization (IMO) International Ship and Port Facility (ISPS) codes. It appears that Honduras will complete its Port Security Plan by the July 1, 2004 deadline and avoid possible decertification of its ports.

Over the past several years, Central American governments have been discussing plans for the construction of a four-lane interoceanic highway or "dry canal" connecting Puerto Cortés on the Caribbean with the Port of Cutuco in El Salvador and Corinto in Nicaragua on the Pacific, providing intercontinental shippers an attractive option to the Panama Canal. However, the project, estimated at USD 600 million, is currently at a stalemate with no current plans to move forward. However, the Emergency Road and Bridge Reconstruction Project has recently completed a "Logistical Corridor" highway between the departments of Valle, La Paz, and Comayagua; the route reduces transport time between Honduras' Caribbean and Pacific ports by two and a half hours and cuts route distance by about 120Km.

Roads and Highways: Honduras has a 13,603 km official road network connecting the ports and airports with the secondary cities and rural areas of the country. The country has good surface connections with the rest of Central America, and the domestic road network has generally satisfied local and foreign companies' distribution and transportation needs. Of Honduras' total roads, 3,199 km is paved primary roads; 2,565 km is (sometimes paved) secondary roads and 7,839 km is (rarely paved) tertiary roads. Honduras' road network is managed by the Ministry of Public Works, Transportation and Housing (SOPTRAVI), which contracts its construction and maintenance works out to the private sector. Post Hurricane Mitch reconstruction efforts resulted in 100 percent reconstruction of primary roads that have since deteriorated to fair to good condition. Rehabilitation and reconstruction continues on secondary roadways. Among the financing sources for the rehabilitation of public works is the U.S. Agency for International Development, the U.S. Department of Agriculture, Inter-American

Development Bank, the World Bank, and the Central American Bank for Economic Integration.

**Construction:** The Honduran government is currently focused on promoting private sector investment as a key strategy for improving the country's infrastructure. Under the Presidential Investment Program, the Honduran government plans to launch several infrastructure projects, including the design and construction of tourist attractions, over the next three to ten years, primarily through private sector financing.

The largest construction investments are seen in residential, commercial, and other construction projects. In recent years, the general trend has been toward an increase in smaller-scale projects and service works, such as banks, hotels, and restaurants. For the period January-December 2002, construction investments were reported as follows: residential (USDUSD 48.5 million), commercial (USDUSD 16.8 million), other buildings (USDUSD 5.9 million), lineal construction (USDUSD 4.8 million), expansions (USDUSD 4.4 million), and remodeling (USDUSD 2.9 million). Though construction and housing projects are a priority of the administration, actual investment in construction by the Government of Honduras has declined by 14.6 percent in 2002, mainly due to a decline in the services sectors (water, electricity, schools, etc.)

**Water and Sewage Systems:** Honduras has 4,538 water systems operating through domestic connections, administered by water and sanitation village boards, municipalities, and SANAA, the National Water and Sewage Service. SANAA operates the water system in Tegucigalpa and 31 other towns, as well as the capital's waste water system. Some municipalities operate their own water and sewer systems. The Italian-based firm ACEA services the potable water and sewerage for the city of San Pedro Sula.

Access and service quality still needs to be improved in the water sector, both rural and urban. Investment needs for short and medium term projects, identified for the period 2003-2015, are estimated at USD 1.29 billion. According to official sources, total water coverage in Honduras is 79.5 percent (90 percent urban and 70 percent rural). Coverage with domestic connections only is 67.8 percent (87.9 percent urban and 49.5 percent rural). Access to sewerage network services is 71.10 percent (93.89 percent urban and 49.50 percent rural). Coverage for service with water treatment is 44.36 percent (85 percent urban and 14.6 percent rural).

## **F. Nature of Local and Third Country Competition**

The close proximity of Honduras to the United States and recognition of the high quality and reliability of American products constitute advantages for U.S. exporters and manufacturers. Exposure to U.S. cable TV stations by middle and upper class Hondurans also contributes to a generally high receptivity of U.S. products and services. Competition from local domestic suppliers is limited. Competition from third-country suppliers is medium to heavy.

The U.S. is Honduras' chief trading partner, supplying over half of Honduras' imports and purchasing about half its total exports. The Central American Common Market countries (El Salvador, Guatemala, Costa Rica and Nicaragua) are Honduras' second largest trading partners followed by Mexico. Within the European Union, Germany stands out as Honduras' most important trading partner, followed by Belgium, Spain,

Holland Italy, and the United Kingdom. Honduras also maintains important commercial relations with the Asia-Pacific group, especially Japan, Taiwan and Korea. Other trading partners include Canada, Panama, Colombia, Chile, Brazil, Ecuador, Argentina and the Dominican Republic.

Third country competition varies by sector. Competition is strongest in the automobile, computer, consumer goods, food industry, telecommunications equipment, and electrical appliance markets. U.S. firms still dominate areas such as electrical power systems, construction equipment, forestry and woodworking equipment, telecommunications equipment and computer software. Competition from Asian and European firms, however, is rapidly growing.

### **III. POLITICAL ENVIRONMENT**

#### **A. Nature of Political Relationship with the United States**

Honduras and the U.S. share a traditionally close and friendly bilateral relationship. Honduras considers the United States its most important international partner, and the U.S. is Honduras' largest bilateral trading partner, accounting for over 50 percent of Honduran exports. Honduras is also the only Central American country with a long-term U.S. military presence, with U.S. military personnel at Honduras' Soto Cano airbase near Comayagua (northwest of the capital city of Tegucigalpa) now numbering approximately 500.

Honduras and the U.S. take similar positions on many foreign policy and regional issues. Honduras is a supporter of the process to create a Central American Free Trade Agreement (CAFTA), favors Central American integration, and supports the Summit of the Americas process, which calls for the creation of a Free Trade Area of the Americas. Honduras is also an active member of multilateral organizations, such as the Organization of American States and the United Nations.

Honduran illegal immigration, driven by limited job opportunities, has been an important bilateral issue. The issue was temporarily resolved by the extension of Temporary Protected Status for those Hondurans who entered the United States prior to December 30, 1998. This status recognizes the special circumstances of Honduras following the Hurricane Mitch disaster in October 1998 and was recently renewed to extend through December 31, 2004.

Bilateral dialogue during 2002 continued to be dominated by USG development assistance. The USG has given approximately \$683 million in aid to Honduras since Hurricane Mitch occurred in 1998. U.S. development assistance continues to place a strong emphasis on infrastructure enhancement and good governance programs. Honduras also passed strong money laundering legislation in 2002 intended to combat organized crime and corruption

#### **B. Major Political Issues Affecting Business Climate**

The most important political issues affecting the business climate in Honduras are the administration of justice and rule of law. The lack of judicial security, a deteriorating security environment, and endemic corruption pose real risks, making business disputes

difficult to resolve. While President Maduro's administration is pro-business and supports free trade, his Nationalist party does not hold a majority in the Honduran Congress. The result is that the President must rely on the support of coalition partners to advance his legislative agenda.

### **C. Synopsis of Political System**

A republic since 1821, the country's democratic renaissance began in 1980 when elections were held for a constituent assembly that subsequently produced Honduras's current constitution. Free and fair elections for president, legislators, and municipal governments have been held every four years since 1980.

Under its constitution, Honduras has three branches of government: a president, elected for a four-year term and not eligible for re-election; a 128-member unicameral Congress elected for four-year terms; and an independent judiciary headed by a fifteen-member Supreme Court elected by Congress for a seven-year term.

The two major political parties in Honduras are the National Party and the Liberal Party. Both have roots in the conservative/liberal division that has dominated Central American politics since the early 1800s. Despite a long history of bitter political rivalry, both parties can now be characterized as centrist in ideology and committed in principle to the democratic process as a means to any needed political change.

Since 1980, the Liberals have won all national elections except those of 1989 and 2001, when the Nationalists won. Voters were able to cast separate ballots for president, Congress, and mayors in the 1997 elections. Ticket splitting has recently resulted in local governments led by opposition candidates.

In 1994, the Government of Honduras established a semi-autonomous Public (Justice) Ministry headed by an Attorney General. Congress elected the most recent Attorney General in 1999 to a five-year term. The Public Ministry takes the lead in most public prosecutions, including those involving corruption and abuse of public authority. Corruption continues to be a major obstacle to economic development.

In January of 1999, the constitution was amended to abolish the position of military commander in chief of the Honduran Armed Forces (HOAF), thus codifying civilian authority over the military. A civilian minister of defense now exercises command and control over the HOAF.

President Maduro, of the National Party, took office in January 2002 on an anti-crime platform. Maduro strongly supports free trade, eliminating trade barriers, and encouraging foreign investment.

## **IV. MARKETING U.S. PRODUCTS & SERVICES**

### **A. Distribution & Sales Channels**

Distribution channels in Honduras are similar to those in the U.S. However, Honduras has fewer levels of distribution and a more limited number of specialty, chain, and department stores. Tegucigalpa and San Pedro Sula are the major distribution centers

for imported products. The most common alternative channels include selling directly to customers, selling through intermediaries based in the United States, and selling through local distributors/representatives. U.S. firms will find that a single distributor or representative is sufficient to cover all of Honduras, given its relatively small size.

Representatives and distributors tend to carry rather broad lines on a non-exclusive basis. The number of full-service local distributors that stock large inventories of parts and equipment is limited. Many local buyers make direct contacts with U.S. suppliers at the factory or warehouse level. Storeowners often buy goods in small lots from stores, export brokers, or wholesalers in the U.S., particularly in Miami, New Orleans and Houston, the principal gateway cities.

In certain sectors, such as automobiles, computers, and electric power generation equipment, local firms who also represent other foreign competitors represent U.S. companies. In other cases, U.S. companies are not represented locally, often losing opportunities in a market that is traditionally receptive to U.S. products. To market aggressively, U.S. exporters should establish local representation or a local sales office.

### **B. Use of Agents & Distributors; Finding a Partner**

The civil and commercial codes, Supreme Decree 549, Official Register (La Gaceta) No. 22366, of December 7, 1977, govern the principal-agent relationship in Honduras. This law is entitled "Law of Agents, Distributors and Representatives of National and Foreign Enterprises," and includes a provision for penalties for wrongful termination that discourages exclusive distribution agreements. Principals may not terminate the contract without just cause, unless they fairly compensate the agent for damages suffered. Only Honduran nationals or Honduran legal entities registered with a local chamber of commerce and the Ministry of Industry & Trade may represent foreign firms.

Foreigners exporting to Honduras are not required by law to sell through an agent or distributor, except when selling to the government. Although a U.S. firm may export directly to Honduran companies, appointing a local agent, representative, or legal advisor is strongly recommended to help with import procedures, sales promotion and after-sales service. Independent intermediaries are especially important for smaller companies, as their knowledge of the market and of the relevant business customs and practices adds to the strength of the U.S. manufacturer/exporter. U.S. companies are advised to evaluate local prospects in terms of the services and benefits provided, considering factors such as location, financial strength, quality of the sales force, warehousing facilities, reputation in the market, outlay on advertising, product compatibility and overall experience.

Exporters of pharmaceuticals, agro-chemicals, food items, animal feeds and medicines are required to register their products before they can be sold in the Honduran marketplace. Pharmaceuticals, food items and medicine-related products must be registered with the Ministry of Public Health. Agro-chemicals and animal feeds must be registered with the Ministry of Natural Resources.

Renewable periods for representation and non-exclusive relationships are strongly recommended when drawing up the agent/distributor agreement. After successfully locating prospective intermediaries, U.S. exporters should contact a Honduran lawyer for assistance with contract arrangements. The Embassy Economic/Commercial Section

can provide a list of attorneys. A written agreement often avoids later disputes and misunderstandings between the U.S. company and the local partner.

Foreign firms wishing to participate in public tenders are required to do so through a local authorized representative. In terms of participation in international public bids in general, foreign firms engaged in the execution of construction, design, consulting, and rehabilitation projects are required, under the State Contracting Law, to register provisionally at the Company Registration and Classification Committee of Civil Engineers (CIRCE). Once a contract for a specific project has been awarded, foreign firms are required to register on a permanent basis with the Honduran Organization of Civil Engineers (CICH). In general, since the timeframe between the public bid announcement and the presentation of bids is often short, having a local partner enhances the U.S. firm's ability to prepare a competitive offer.

The U.S. Department of Commerce offers several services to U.S. firms interested in finding a partner or distributor for their product or service. The U.S. Commercial Service (USCS) offers free and intensive one-on-one counseling plus low-cost, highly effective programs to help U.S. businesses establish or expand their foreign markets. The Commercial Section of the Embassy can locate interested, qualified representatives in potential markets in Honduras through its International Partner Search (IPS) service. A U.S. firm may also check the background and reputation of a prospective partner through the International Company Profile Report (ICP). Through its Gold Key Service, the Commercial Section can schedule appointments, arrange translators and make reservations for U.S. businesses searching for partners or customers in Honduras. The IPS and ICP, as well as other valuable services, are also available for a nominal fee through the U.S. Export Assistance Centers (USEACs) of the U.S. Department of Commerce, located in 111 U.S. cities. For additional information on export-related assistance and market information offered by the federal government, U.S. companies may visit [www.export.gov](http://www.export.gov) or call 1-800-USA-TRADE.

### **C. Franchising**

In recent years the number of U.S. franchises operating in Honduras has grown rapidly. There are about 58 foreign firms now operating in Honduras under franchising agreements. Most of these firms are U.S. fast-food and casual restaurants, such as T.G.I. Friday's, Applebee's, Tony Roma's, Ruby Tuesdays, Pizza Hut, McDonald's, Wendy's, Subway, Burger King, Church's Chicken, Sbarro, Cinnabon, Pretzels, Popeye's, Season's, Domino's Pizza, Papa John's, Little Caesar's and Kentucky Fried Chicken (KFC). Among other foreign businesses operating under franchise agreements are automotive aftermarket services, clothing, movies and entertainment, cleaning and pest control, health & fitness, electronics, cosmetics & toiletries, business services, convenience stores, dry-cleaners, car rentals, mailing, and fast-printing. In addition, several major hotel chains are entering the market through construction of new facilities and acquisition of existing properties, such as Holiday Inn, Real Inter-Continental, Clarion Hotels, Best Western, Barceló Resorts, Microtel Inn and Marriott International. In general, demand in this sector has been spurred by the local market need for quick services, convenient hours and locations, quality products, and most importantly, solid customer service.

The Commercial Section is receiving an increasing number of requests from local entrepreneurs about U.S. franchises. This is an area well worth exploring for growth and



expansion of U.S. business. Regional stability and the growth in investor confidence have contributed directly to the increase in the availability of U.S. franchises in various economic activities. Some of the positive market entry factors found in Honduras for franchisers include the availability of suppliers and personnel, the absence of trade barriers and a high receptivity to U.S. goods and services (especially if no equivalent local product or service exists). Honduras has no locally developed franchises.

On May 29, 1992, the Honduran Congress passed a new investment law that is increasingly responsive to foreign investors' needs. Among other things, the investment law provides for national treatment for most foreign direct investment, guaranteeing the right to foreigners to freely establish, acquire, and dispose of interests in business enterprises within constitutional bounds.

Finding the right partner will determine the ultimate success or failure of the franchise venture in Honduras, and potential franchisees must be carefully selected. The most promising candidates are those with proven financial resources that have already established a successful business in the country.

#### **D. Direct Marketing**

Direct marketing is a relatively new concept in Honduras, mainly because telecommunications and mail delivery infrastructures are not well developed for this type of marketing. Among the companies that currently utilize non-conventional distribution channels are TV Offer, Ofertel (direct response TV), Avon Oriflame and Romanel (catalog and door-to-door sales), and J.C. Penney (catalog sales). Mail advertising of products and services is generally conducted through credit card companies, thus limiting the target market only to their respective credit card holders. Local company listings and mailing information can be obtained through chambers of commerce and industry associations in the country.

Electronic Commerce is gradually evolving in the Honduran market, as local internet connectivity is in a rapidly developing stage at both private and government levels. Although local statistics are unavailable, an increasing number of companies are starting to utilize computer sales as an additional distribution channel in Honduras.

#### **E. Joint Ventures/Licensing**

The Honduran Investment Law (Decree #80-92) allows foreign investment and joint ventures between national and foreign investors through the execution of contracts whereby the contracting parties may contribute land, capital, services, technology, technical assistance or other assets for the production or marketing of goods and services. Licensing agreements, in which foreign firms are authorized to produce a patented product in exchange for royalty payments, are also guaranteed under the country's regulatory framework for investment. Laws applicable to joint venture and sharing contracts are also contained in Chapter XIII, Title II, Book IV of the Commercial Code.

A wide variety of opportunities for investment and strategic alliances are offered through joint venture initiatives. The 1992 Investment Law provides that, with few exceptions, there are no limits on the percentage of capital that can be owned by a foreigner. Thus, no special policy exists to regulate joint ventures, except that in certain sectors majority

control must be in the hands of Honduran nationals. These include companies that wish to take advantage of the Agrarian Reform Law; wish to obtain commercial fishing rights; are local transportation companies; are representatives, agents, and distributors for foreign companies; or seek to operate radio and TV stations. In general terms, the greatest opportunities for joint ventures can be found in the industrial, mining, agricultural, tourism, power generation, forestry, construction, and service sectors. The Commercial Section regularly reports to the Department of Commerce about Honduran firms interested in pursuing joint ventures in various industries.

The Foundation for Investment and Development of Exports (FIDE), a private institution dedicated to supporting the development of new export and investment sectors, works with local businesses to strengthen their capacity to attract foreign joint venture partners, and locates appropriate manufacturing facilities for investors. FIDE also operates an office in Miami, Florida, dedicated to promoting Honduras as a site for investment and production contracts (2901 S. Bayshore Drive, Unit 7-F, Miami, FL 33133, Tel. 305-441-7700ñ Fax 305-441-1010). FIDE's Internet site, which also provides useful information on Honduras, is <http://www.hondurasinfo.hn>.

The Constitution of Honduras requires that all foreign investment complement, but not substitute for, national investment. In certain types of industries, majority Honduran ownership is required (see section VII, Investment Climate, Openness to Foreign Investment). There are also limits on the amount of land a single corporation may own. Small-scale commercial and industrial activities with an investment no greater than Lps. 150,000.00 (about \$8,500/excluding land, buildings and vehicles) are reserved exclusively for Honduran nationals. Licensing of foreigners to practice law, medicine, engineering, and other professions is tightly regulated by national professional organizations.

Except for foreign currency earned by companies operating in free-trade zones and industrial parks, Honduran law allows that all foreign exchange earnings on exports from Honduras be repatriated. The liberalization of Honduras' foreign exchange regime now makes it easier for companies operating in the country to remit dividends and royalties, return capital overseas and make payments on foreign debt. Foreign exchange authorizations by the Central Bank have been eliminated, and foreign debt authorizations now take less than 48 hours to obtain. Remittances of dividends and royalties must still be approved by the Central Bank.

Taxation is an important issue to consider when investing in Honduras. The Financial Balance and Social Protection Act, Decree 194-2002 of June 5, 2002, introduced changes to the income tax, business assets tax, sales tax and car registration duties. Decree 131-98 of May 20, 1998 established a 4% tax on tourism-related services (including hotel accommodations, car rentals, and travel agents). Hotels and lodging facilities that serve a low-income clientele and are designated by the Honduran Ministry of Tourism are exempt from payment of this tax.

The corporate tax rate is 15% on the first LPS. 200,000.00 of taxable income and 25% on any income above that amount (as of January 2004 the exchange rate was \$1 = 17.957 LPS.). As of 1999, the maximum income tax rate (above 500,000.00 lempiras) is 25%. Except for firms operating in the industrial parks, located in the free tourism zones (ZOLT) or under the Temporary Import Regime, income tax is payable on income derived from operations within Honduras. The annual period for computing the tax on

taxable income begins on January first (1) and ends on December thirty-first (31).

Non-resident aliens (and foreign companies not located in Export Processing Zones and Free Trade Zones) are only taxed on the gross income earned in Honduras. A 35% tax is assessed on corporate dividends and royalties for use of copyrights, patents, trademarks, and designs. Wages, salaries, commissions, or any other type of compensation are taxed at 35%. Under Decree 194-2002, the 15% tax levied on income, profits, dividends or any other type of profit sharing reserve receipts will be phased out according the following schedule: (10% in 2002; 5% in 2003 and 0% in 2004). The same schedule applies to the 10% tax applied to income earned by natural or artificial persons who are residents of or domiciled in the country, for dividends or any other type of profit sharing or reserve receipts. Capital gains are taxed as normal income, while capital losses can be used to offset capital gains only from the same period. Income from public shows is taxed at 30%, and insurance premiums at 15%. Honduras also collects excise, property, and municipal taxes based on income obtained during the previous year.

Other percentages taxed on the gross income earned in Honduras include films and videotapes for movies and television: 15%; royalties for mining, quarrying and other natural resource operations: 10%; income from the operation of airplanes, vessels and land vehicles: 10%; income from operations of communication firms: 5%; interest earned on bonds, notes, securities, and other obligations: 5%; any other income not covered above: 20%.

Public or private artificial persons who make payments or grant credits to natural or artificial persons who are residents of Honduras but who are not exempt from the income tax, must withhold and pay to the tax authorities 12.5% of payments made or credits granted for professional fees, per diem allowances, commissions, awards, bonuses, and remuneration for technical services. Payments made under labor contracts entered into during the fiscal year, the fees for which are the sole source of income and do not exceed Lempiras 90,000.00, are exempted.

There is a 1% tax on net assets in Honduras. This tax applies to companies whose capital is greater than LPs. 750,000. However, the income tax paid by these companies is credited against the net assets tax, and many companies do not have any additional liability. Exempt from the net asset tax are individuals whose total net assets do not exceed Lempiras 3,000,000.00 (\$166,000.00); businesses in their pre-operative stages; and businesses operating in free trade zones, industrial processing zones, tourism free zones and maquilas. Payment of this tax is deductible from the income tax.

Other than the Tax Information Exchange Agreement (TIEA), signed between the United States and Honduras in 1991, there are no tax treaties between the U.S. and Honduras.

## **F. Steps to Establishing an Office**

The U.S. Embassy recommends that all U.S. businesses interested in establishing an office in Honduras first contact the nearest U.S. Export Assistance Center (USEAC) of the U.S. Department of Commerce. These offices are located in 111 cities throughout the United States. We also strongly suggest that U.S. businesses contact the Economic/Commercial Section of the U.S. Embassy for counseling and advice. In addition to the general information provided by officers and specialists, the

Economic/Commercial Section maintains a number of lists and directories of Honduran trade contacts and professionals, including lawyers.

Foreign businesses setting up operations in Honduras are subject to the Commercial Code, which recognizes several types of mercantile organizations: individual ownership, general partnership, simple limited partnership, limited liability company, corporation and joint stock company. In July 2002, the Government of Honduras ratified a law on simplification of administrative procedures in establishing a company (Article 308 of the Commercial Code, Decree No. 255-2002). Through this new legislation, the government expects to streamline procedures and eliminate a series of administrative obstacles involved in the process, reducing the steps for establishing an office from up to six months to a maximum of 40 days.

Locating and securing a suitable local partner is one of the most important steps in establishing a base of operations in Honduras. When doing so, U.S. business representatives should keep in mind that contracts and agreements are binding and fall under the jurisdiction of local laws. To establish a local corporation, interested parties must also secure the services of an attorney. Attorneys will guide investors through the procedures of incorporation, registration, and local taxation. In addition, there are several other notarial acts that must be carried out before establishing a business that require the services of an attorney.

Any project, industrial facility, or public or private activity that could cause potential contamination or harm to the environment or historical sites must be preceded by a mandatory environmental impact evaluation (EIA). U.S. businesses should ask their attorney about the need for an EIA.

The Honduran government has a One-Stop Shop in the Ministry of Industry and Trade to deal with investors, especially with investment registry procedures. In order to ensure compliance with all the investment protection guarantees established by the 1992 Investment Law, the U.S. company should obtain an "Investment Certificate" from the Ministry of Industry & Trade. (For further information see Section VII of the Investment Climate Statement, Openness to Foreign Investment).

### **G. Selling Factors/Techniques**

When selling in Honduras, U.S. exporters must take into account that for marketing purposes, the country is divided into two regions; the North Coast, including San Pedro Sula, the country's commercial and industrial capital; and the Central region, where Tegucigalpa, the political capital and largest city, is located.

Large importers and distributors in Honduras usually have offices in both cities to take advantage of market opportunities. In other instances, large international firms have granted exclusive distributor rights; i.e., one exclusive distributor in San Pedro Sula and another in Tegucigalpa. These types of arrangements are acceptable under current Honduran laws.

Price is among the most important selling factors in Honduras. In particular, consumer product categories such as electronics, appliances, and automobiles are highly competitive. In such cases, the sales promotion and customer service efforts of U.S.

companies become extremely helpful. U.S. products are often preferred based on quality, technology, reliability, and availability factors.

Because of high local interest rates generally offered only for the short term, importers / distributors, as well as Government of Honduras agencies, often have problems in securing the funds to purchase imports. U.S. exporters that offer attractive financing terms on sales to Honduran traders have the best chances of gaining market share. This is particularly true for large-scale projects. It is important to emphasize, however, that international firms must exercise due caution when granting credit to Honduran trading partners. Firms should take care to investigate the creditworthiness and reputation of potential partners before granting credit.

As in most Latin American countries, a good personal relationship with prospective customers is basic to penetrating the market. While it may take a little longer than is customary in the U.S. to consummate a business relationship, the investment in time can pay off in long-lasting and mutually profitable alliances.

#### **H. Advertising & Trade Promotion - Listing of Major Newspapers & Business Journals**

Honduran newspapers are considered one of the best ways for advertising products and services. Major local newspapers and business journals include:

##### Honduran Newspapers

###### ***Diario El Heraldo***

Spanish/Daily  
Sub-Director: Maria Antonia Martinez  
P.O. Box 1938  
Tegucigalpa, M.D.C., Honduras  
Tel: (504) 236-6000  
Fax: (504) 221-0778  
E-mail: [diaro@heraldo.hn](mailto:diaro@heraldo.hn)  
[Http://www.heraldo.com](http://www.heraldo.com)

###### ***Diario La Tribuna***

Spanish/Daily  
Manager: Manuel Acosta Medina  
P.O. Box 1501  
Comayaguela, M.D.C., Honduras  
Tel: (504) 233-1283  
Fax: (504) 234-2755  
E-mail: [macosta@latribuna.hn](mailto:macosta@latribuna.hn)  
[Http://www.latribuna.com](http://www.latribuna.com)

###### ***Semanario Tiempos del Mundo***

Spanish/Weekly  
Manager: Rodolfo Ramírez  
No P.O. Box available  
Tegucigalpa, M.D.C., Honduras  
Tel: (504) 232-4225  
Fax: (504) 235-8575  
E-mail: [tdm@mayanet.hn](mailto:tdm@mayanet.hn)  
[Http://www.tdm.com](http://www.tdm.com)

###### ***Honduras This Week***

English/Weekly  
Manager: Mario Gutiérrez  
P.O. Box 1323  
Tegucigalpa M.D.C. Honduras  
Tel: (504) 239-0285  
Fax: (504) 232-2300  
E-mail: [hontweek@hondutel.hn](mailto:hontweek@hondutel.hn)  
[Http://www.hondurasthisweek.com](http://www.hondurasthisweek.com)

### San Pedro Sula Based Newspapers

#### ***Diario La Prensa***

Spanish/Daily  
Director: Nelson Fernández  
P.O. Box 143  
San Pedro Sula, Honduras  
Tel: (504) 553-3101  
Fax: (504) 553-4020  
E-mail: [nelson@laprensa.hn](mailto:nelson@laprensa.hn)  
E-mail: [correos@laprensa.hn](mailto:correos@laprensa.hn)  
[Http://www.laprensahn.com](http://www.laprensahn.com)

#### ***Diario El Tiempo***

Spanish/Daily  
Manager: Carlos Rosenthal  
P.O. Box 450  
San Pedro Sula, Honduras  
Tel: (504) 553-3388  
Fax: (504) 553-4590  
E-mail: [fmotta@continental.hn](mailto:fmotta@continental.hn)  
E-mail: [tiempo@continental.hn](mailto:tiempo@continental.hn)  
[Http://www.tiempo.hn](http://www.tiempo.hn)

### Honduran Business Journals

#### ***Estrategia & Negocios***

Spanish/Monthly  
Silvia de Angulo, Manager  
Barrio Rio de Piedras 7<sup>th</sup> Calle entre 19-20 Ave. S.O.  
Tegucigalpa, Honduras  
Tel. (504) 553-5157  
Fax. (504) 553-5157  
E-mail: [sestynegsus@sulnet.net](mailto:sestynegsus@sulnet.net)

#### ***Hablemos Claro Financiero***

Regina Wong Ayl, Manager  
Ed. Torrelibertad Blv. Suyapa Col. Florencia Sur,  
Entre Ed. Leme y Escuela Antares  
Tel. (504) 239-4350 / 239-3916  
Fax. (504) 239-7008  
E-mail: [anuncios@hablemosclaro.com](mailto:anuncios@hablemosclaro.com)  
<http://www.hablemosclaro.com>

### Trade Promotion:

In addition to the export promotion programs of the U.S. Department of Commerce, the Commercial Service in Tegucigalpa can assist U.S. companies through trade missions, seminars, conferences, catalog shows and matchmaker events. These programs are conducted periodically on a cost-recovery basis with pre-approved budgets.

There are a limited number of privately organized trade promotion events in Honduras. Located in the city of San Pedro Sula, Expocentro is the biggest local trade exposition center. Expocentro holds approximately 12 trade shows a year. For more information on trade fairs taking place at Expocentro fair grounds please contact:

#### ***Expocentro***

P.O. Box 14, San Pedro Sula, Cortés, Honduras  
Tel: (504) 566-0345 up to 48; Fax: (504) 566-0344  
Contact: Sylvia de Paz, Manager

## **I. Pricing Products**

U.S. exporters should keep in mind the relatively small size of the Honduran market and the high elasticity of demand for consumer products when devising marketing strategies. Price is one of the most important elements that influence the receptivity score of most Honduran imports. In many cases, Honduran businesspeople buy directly from abroad if they feel that the cost of imports available in the local market is too high. U.S. exporters should carefully analyze both the cost approach and the market approach when making pricing decisions.

Price escalation represents another important consideration in terms of export retail pricing. Products imported into Honduras are usually priced based on the C.I.F. value, import duties, in-country transportation costs, and distributor margins.

The Honduran government controls the prices for coffee and medicines, and regulates the prices of gasoline, diesel, and liquid propane gas. In addition, it keeps an informal control over prices of certain staple products, such as milk and sugar, by pressuring producers and retailers to keep prices as low as possible. The local sales tax is 12% for most goods. Products exempted from the 12% tax include staple foods; purified water; fuels; medicines and pharmaceuticals; agrochemicals; educational materials; electrical power generation machinery and equipment; agricultural machinery and tools; handicrafts; and capital goods such as trucks, tractors, cranes, computers, and equipment used for the maquiladora industry. A 15% sales tax is also assessed on new cars, alcohol, cigarettes and tobacco products. The elimination of a 1% tax applied on the FOB value of all articles exported has been approved by the government for 2002, whereas, export taxes on seafood, sugar and live cattle were eliminated in 2000.

Services exempt from the sales tax include utilities (electrical power and potable water), educational services, professional fees (legal, accounting, engineering, etc.), clinical and medical services, land transportation services, banking, insurance and financial services. Tourism services are subject to a 4% tax, with air transportation subject to a 10% tax.

## **J. Sales Service/Customer Support**

The availability of adequate service and support frequently makes the difference in purchasing decisions, especially by the government. In general, it is important to secure sales through an established, reputable distributor that offers an adequate service infrastructure. U.S. companies should consider providing training, technical assistance, and sales support to their local counterparts, particularly for products that require periodic maintenance and service.

## **K. Selling to the Government**

The State Contracting Law, which entered into force in October 2001, governs government procurement contracts and bidding processes. To participate in public tenders, foreign firms are required to act through a local agent. By law, local agency firms must be at least 51% Honduran-owned, unless the procurement is classified as a national emergency. Foreign companies may also appoint a local representative through a power of attorney. This representative, who will assist in obtaining the tender specifications, meeting deadlines for submission, and preparing bid offers in Spanish, can be a Honduran citizen, a Honduran company, or resident of Honduras.

In an effort to increase transparency in government procurement practices, various bidding processes of government ministries, state-owned companies and other public sector agencies are currently being handled by the United Nations Development Program (UNDP). Despite these efforts, complaints about mismanagement and lack of transparency during participation of U.S. firms in local government tenders are still prevalent.

Under the State Contracting Law, all public works contracts over one million lempiras (\$63,000) must be offered through public competitive bidding. Public works contracts between lempiras 500,000 and one million (\$31,000 and \$63,000) can be offered through a private bid and contracts less than lempiras 500,000 are exempt from the bidding process. For contracts over lempiras 50 million (\$3.1 million), the government reserves the right to divide the contract into parts not more than lempiras 15 million (\$940,000) each. The government publishes tenders in Honduras' major newspapers. Government purchases and project acquisitions are generally exempted from import duties.

Bids are evaluated based on cost, delivery time, reputation of the firm, technical support, performance in previous contracts and specific aspects related to each particular bid. Interested U.S. businesses can access many of these bids through the Trade Opportunities Program (TOP), the National Trade Data Bank (NTDB) and the Electronic Bulletin Board (EBB), which are product services of the U.S. Department of Commerce.

#### **L. Protecting your Product from Intellectual Property Rights (IPR) Infringement**

The protection of intellectual property rights (IPR) is handled by the IPR Division of the Ministry of Industry and Trade. The Division handles the registration of patents, trademarks and copyrights, as well as any complaints regarding their infringement.

With the exception of new legislation concerning plant varieties and integrated circuits still pending in the National Congress, Honduras is largely in compliance with the Trade Related Aspects of Intellectual Property Rights (TRIPS). In the late 1990s there was a strengthening of laws dealing with IPR, including a 1999 law on copyrights, patents, and trademarks as well as a royalties law that came into force in January 2000. The Business Software Alliance established a presence in Honduras in 2000 to protect software companies from piracy in Honduras. The IPR Division and Attorney General's office cite procedural problems and a lack of resources as impediments to effective enforcement.

To be protected under Honduran law, patents and trademarks must be registered with the Ministry of Industry and Trade. The life of a patent ranges from 10 to 20 years, depending on the importance of the invention. Trademarks are valid up to 10 years from the registration date. "Notorious" or well-known trademarks are protected under the Pan American Convention (1917), to which Honduras is a party. Illegal registration of a well-known trademark, however, must be contested in court if the original holder is to exercise the rights. (Also see Section VII. G). Data protection is provided for five years. Honduras also offers process patent protection.



### **M. Need for a Local Attorney**

Selecting a competent and reliable local attorney is an important first step to doing business in Honduras. The advice and counsel of a local attorney is essential to opening a business and to understanding Honduran judicial and administrative systems. The Economic/Commercial Section maintains a list of attorneys that have experience assisting U.S. firms. This list is posted on the Embassy's website at <http://www.usembassy.state.gov/tegucigalpa>.

### **V. Leading Sectors for U.S. Exports and Investment**

#### **A. Best Prospect Sector for U.S. Exporters to Honduras (US\$ millions) (Non-Agricultural Goods and Services)**

A.	RANK OF SECTOR:	1		
B.	NAME OF SECTOR:	Telecommunications Equipment & Services		
C.	ITA INDUSTRY CODE:	TEL		
		2002	2003	2004e
D.	Total Market Size:	77.20	80.00	100.00
E.	Total Local Production:	0.00	0.00	0.00
F.	Total Exports:	0.00	0.00	0.00
G.	Total Imports from U.S.:	47.70	52.40	65.00
H.	Total Imports:	77.20	80.00	100.00
I.	Exchange Rate:	16.52	17.95	17.95

(The above statistics are unofficial estimates)

#### **Comments:**

The telecommunications sector in Honduras is undergoing a major restructuring process, evolving towards competitive markets led by the private sector. On September 2003, the Government of Honduras formally launched the project "Telephony for All". An Executive Decree containing the conditions for the modernization, development and expansion of the telecom services market was ratified on October 2003. Through this Decree, the state-owned telecommunications company (Hondutel) may subscribe non-exclusive and non-discriminatory commercialization contracts with multiple telecom providers. Among the services that can be provided by telecom sub-operators are: local fixed telephony, national long distance, public telephones, carrier services and long distance international service.

Access to telecommunications service in Honduras remains well below the Latin American average. As of October 2003, total unmet demand was 342,191 lines, with only 4.6 lines per one hundred inhabitants. Estimated telephony demand for 2006 is 752,605 lines. By encouraging private sector participation, this new program is expected to modernize, expand and upgrade the Honduran telecommunications network; service the growing unsatisfied demand; introduce competition for voice fixed services; and stimulate the provision of new telecom services.

At the same time, Hondutel has embarked in an important \$144 million investment plan for the period 2002-2004, which attempts to improve the network's capabilities. Modernization investments are foreseen in the areas of fiber optics; PCS; microwave network; fixed wireless band width access; telephone operating-center expansion; submarine cable network expansion; and trunking system expansion.

**Best Sales Prospects:** Most promising telecom sub-sectors include wireless telephone systems and equipment; PCS; cellular telephones; internet; data transmission equipment; fiber-optic equipment and trunked mobile radio systems.

#### Best Prospect Sector for U.S. Exporters to Honduras (US\$ millions)

A.	RANK OF SECTOR:	2		
B.	NAME OF SECTOR:	Security & Safety Equipment		
C.	ITA INDUSTRY CODE:	SEC		
		2002	2003	2004e
D.	Total Market Size:	9.80	10.40	11.50
E.	Total Local Production:	0.00	0.00	0.00
F.	Total Exports:	0.00	0.00	0.00
G.	Total Imports from U.S.:	8.90	9.30	10.00
H.	Total Imports:	9.80	10.4	11.50
I.	Exchange Rate:	16.52	17.95	17.95

(The above statistics are unofficial estimates)

#### Comments:

The present Maduro administration has placed security as one of its top social priorities. Elevated crime rates have increased demand for safety and security equipment in all sectors of the economy, including among personal, residential, commercial financial and national police force users. It is estimated that the general market for Security & Safety Equipment will grow at a rate of 15% for the next three years, as security clients look to replace guards with technology. The market for security and safety equipment is supplied entirely by imports, with the U.S. supplying approximately 49% of the total. Among third-country suppliers are Canada, Taiwan, and Japan.

The market for residential security equipment is growing. Various private housing contemplate the installation of different types of home security systems, such as alarms, sensors, smoke and fire detectors, water sprinklers and automated computerized home security systems. Demand for electronic alarm systems, closed circuit TV, one-way mirrors, bullet-proof windows and armored vehicles is also on the rise for the commercial and banking sectors. Within the public sector, the Ministry of Security has been authorized, through a governmental executive decree, to make direct purchases of modern technology for safety and security purposes.

In compliance to the U.S. Customs Service's Container Security Initiative, the National Port Authority has engaged in a Port Security Assessment and maritime certification process that encompasses the acquisition of technology to pre-screen cargo containers before they arrive at U.S. ports, as well as the countering of any illegal activities that may

occur at the ports. Among the equipment needed to increase security in local ports are x-ray inspection equipment, security cameras and other specialized electronic security devices. In addition to port infrastructure, the country's four international airports are undergoing a series of urgent improvements and terminal expansion plans involving safety and security equipment investments for the next two years.

The following items are among the best prospects for security equipment in Honduras:

Electronic surveillance equipment  
 Alarm systems (fire/burglar)  
 TV closed circuits  
 Security Cameras  
 Electric residential fences  
 Armored Vehicles  
 Protective Clothing  
 X-ray Inspection Equipment  
 Safes and Strong Boxes  
 Sprinkler Systems  
 Smoke Detectors  
 Fire Extinguishers  
 Vehicle Alarm Systems  
 Airport safety & security equipment (including terminal X-ray equipment, closed circuit cameras, customs & baggage inspection equipment).

#### Best Prospect Sector for U.S. Exporters to Honduras (US\$ millions)

A. RANK OF SECTOR:	3		
B. NAME OF SECTOR:	Automotive Parts/Service Equipment		
C. ITA INDUSTRY CODE:	APS		
	2002	2003	2004e
D. Total Market Size	72.90	75.80	80.00
E. Total Local Production	0.00	0.00	0.00
F. Total Exports	0.00	0.00	0.00
G. Total Imports	72.90	75.80	80.00
H. Total Imports from U.S.	43.70	40.00	45.00
I. Exchange Rate:	16.52	17.95	17.95

(The above statistics are unofficial estimates)

#### Comments:

The market demand for U.S. products in this sector looks promising, with an expected growth rate of 10% over the next three years. An aging car population continues to fuel demand for automotive parts and accessories in Honduras. An estimated 70% of the total vehicle population is at least 5 years old and in need of constant repairs. The introduction of U.S. manufactured vehicles has also increased significantly over recent years, posing greater opportunities for American exporters. Honduras has no local production of automotive parts & accessories. The United States is one of the major suppliers in this sector, along with Japan, Taiwan, Brazil, Mexico, Germany and the United Kingdom.

The National Congress, in an attempt to help control the increasing air pollution levels generated by tailpipe emissions in the major cities of Honduras, enacted a law for the "Regulation of Hazardous Gas Emissions of Automotive Vehicles" in late 2000. In order to comply with the technical norms established in this regulation, effective January 13, 2001, all passenger motor vehicles need to be fitted with an emissions control system or catalytic converter. This important regulatory measure, coupled with the growing demand for effective emissions control devices, should positively influence the demand for automotive parts and accessories through local repair shop services.

Public service transportation units represent one of the major end-users of automotive parts and accessories in Honduras. Most of the urban transportation fleets use buses of low operational quality, which are 80% obsolete. The replacement needs for urban buses alone is estimated at \$60 million.

There are more than 300 retailers of automotive parts and accessories in Honduras who buy directly from overseas or through local distributors. Japanese cars and light trucks dominate the market but parts are often purchased through the United States. American-made pickups, SUVs, heavy trucks and buses have stronger shares of the local market. Recent tariff changes for automotive vehicles include an overall reduction in tariffs, elimination of the disadvantage to U.S. vehicles vs. Japanese models as Honduras rescinded the tariff based on engine size, and the implementation of a complete ban on the importation of used vehicles more than seven years old.

In general, most automotive parts and accessories are expected to offer good sales opportunities in the Honduran market. Particularly promising products include:

- All types of engine spare parts;
- electrical system components;
- transmission parts;
- suspension parts;
- tires;
- emission control equipment
- automotive accessories

#### Best Prospect for U.S. Exporters to Honduras (US\$ millions)

- |    |                    |             |
|----|--------------------|-------------|
| A. | RANK OF SECTOR:    | 4           |
| B. | NAME OF SECTOR:    | FRANCHISING |
| C. | ITA INDUSTRY CODE: | FRA         |

The popularity of franchising continues to grow steadily in Honduras, especially in the fast-food and casual dining sector. Honduras' population as of December 2003 has been estimated at 6.5 million. Tegucigalpa, the capital, at 850,000, and San Pedro Sula, the country's main business center, at 500,000. Honduras has over 50 international franchises concentrated throughout these two main cities.

No official figures on the franchise sector are available in Honduras, and the industry has not yet formed an association. Honduras has no locally developed franchises. The market is expected to grow 10 percent per year during the next 3 years. Great interest

exists to open new franchises in Honduras, as can be observed during the International Franchise Expo (IFE). Honduras participates annually in this event, with a delegation of local businesspeople recruited by the Commercial Service through the International Buyer Program (IBP).

The demand for convenience and entertainment services is growing rapidly. These services include dry cleaning, lawn and garden, professional painters, fast shoe repair services, pest control, day care learning centers, computer learning centers, security, advertising, real estate, auto repair, discount stores, convenience store/pharmacy, casual clothing, cosmetics and toiletries, video rentals and fast food drive-in's. There is no special franchise legislation in Honduras. Franchise companies are subject to normal trade laws such as paying a 25 % tax on royalties, a value-added tax of 12 % and import tariffs that can go from 0 percent to 15 percent except for those products that have tariff rate quotas (TRQ's).

When Central American investors consider a franchise concept, they look for reputable franchisors with a worldwide presence and solid acceptance in other markets, able to provide extensive training and start-up support. Local investors also look for recognizable trademarks, as local consumers consider recognizable U.S. trademarks as high quality articles. Potential franchisees are usually young, wealthy executives familiar with the U.S. and other countries or large corporations that already own more than one franchise in different industry sectors, i.e., fast food, clothing or health.

#### Best Prospect Sector for U.S. Exporters to Honduras and Guatemala (US\$ millions)

A. RANK OF SECTOR:	5		
B. NAME OF SECTOR:	Textile Machinery, Equipment and Fabrics		
C. ITA INDUSTRY CODE:	TXM/TFX		
	2002	2003	2004e
D. Total Market Size	20.38	21.50	23.00
E. Total Local Production	N/A	N/A	N/A
F. Total Exports	1.32	1.50	2.00
G. Total Imports	21.7	23.0	25.00
H. Total Imports from U.S.	8.50	9.20	11.00
I. Exchange Rate:	16.52	17.95	17.95

N/A = not available

(The above statistics are unofficial estimates)

#### Comments:

Honduras is the third largest exporter of apparel and textile products to the U.S. market. With private industry construction of industrial parks equipped with advanced technology and up-to-date infrastructure, Honduras hosts some of the region's most successful textile manufacturers. Over 40% of the companies established in export processing zones are of U.S. origin. According to the Honduran Apparel Manufacturing Association (HAMA), the Caribbean Basin Trade Pact Act (CBPTA) has made the country more attractive to drawback factory investment, construction and expansion of industrial parks,

and importation of tax-free textile machinery, equipment, and accessories. Through the CBPTA, local textile manufacturing companies are able to import tax free U.S. made yarn, fabrics, and dyes to manufacture and process textile products used in the apparel assembly industry. Average annual growth rate for the industry is 15% for the next three years.

The following is a list of the most promising sub-sector categories within the industry for the next two years:

- Spinning machines
- Sewing machines
- Trims
- Drying machines
- Bleaching or dyeing machines
- Zippers
- Buttons
- Trims
- Yarn
- Boxes

#### Best Prospect for U.S. Exporters to Honduras (US\$ millions)

A.	RANK OF SECTOR:	6		
B.	NAME OF SECTOR:	FOOD PROCESSING AND PACKAGING		
C.	ITA INDUSTRY CODE:	FPP		
		2002	2003	2004e
(USD MILLIONS)				
D.	Total Market Size:	9.36	9.58	10.10
E.	Total Local Production:	1.00	1.00	1.10
F.	Total Exports:	0.84	0.92	1.00
G.	Total Imports from U.S.:	9.20	9.50	10.00
H.	Exchange Rate:	16.52	17.95	17.95
N/A= not available				
(The above statistics are unofficial estimates)				

#### Comments:

The total market for food processing and packaging equipment in Honduras has increased steadily over the past few years and further increases are expected in the years to come. The United States continues to be Honduras' largest supplier of food processing and packaging equipment, enjoying a high level of acceptance and reputation for high quality.

The total market for food processing and packaging machinery in Honduras increased from \$9.2 million in 2002 to \$9.5 million in 2003. Honduran exporters are pursuing expansion plans to increase production and improve the quality of their exports, particularly non-traditional agricultural products such as melons, watermelons, mangoes, winter vegetables, fruits and flowers. In addition, the constant opening of fast food and casual dining restaurants, bakeries, and sandwich stands also offer good opportunities for food processing and handling machinery.

The following are the Best Prospect Sales for the food processing and packing industry in Honduras:

84.19.89.50.60	Industrial Machinery, plant, equipment for the treatment of Food and beverages
84.22.30.10.0	Can sealing machines
84.22.40.00.0	Packing and wrapping machinery
84.22.90.00.0	Parts
84.38.60.10.0	Machinery for the preparation of fruits, nuts and vegetables
84.38.60.90.0	Machinery for the preparation of fruits, nuts and vegetables
84.38.80.00.0	Machinery for the industrial prep. of manufactured foods, drinks

#### Best Prospect Sector for U.S. Exporters to Honduras (US\$ millions)

A.	RANK OF SECTOR:	7
B.	NAME OF SECTOR:	Computers and Peripherals
C.	ITA INDUSTRY CODE:	CPT

Statistical data for Honduras:

	2002	2003	2004e
D. Total Market Size:	69.40	71.30	75.00
E. Total Local Production:	N/A	N/A	N/A
F. Total Exports:	0.00	0.00	0.00
G. Total Imports:	69.40	71.30	75.00
H. Total Imports from U.S.:	66.68	69.35	73.00
I. Exchange Rate:	16.52	17.95	17.95

(The above statistics are unofficial estimates)

#### Comments:

The market for computers and peripherals in Honduras is still growing. Demand is intensifying with the growing use of computers in most sectors of the economy, especially personal computers and software/multimedia. Increased IT modernization needs, the introduction of new and faster products, and the increasing interest in Internet access have all helped fuel demand for computer equipment in Honduras. Government deregulation efforts are also contributing to the sector's continuous growth. Small businesses, medium-sized enterprises, and households are emerging as important customers for computer equipment suppliers as a result of Internet popularity and expansion. Among the leading computer brands are Dell, Compaq, Hewlett-Packard, and IBM. The estimated average growth rate is 10-15% for the period 2004-2006.

The clone equipment market assembled with Asian, European and Latin American parts is also well established locally due to competitive prices. Clone components imported from Asian countries include motherboards, keyboards, mouses and cases, among others. Asian parts and components used to build a clone generally comprise 60 to 75% of the finished product. Between 25% to 40% of U.S. parts are used in the process of computer clone manufacturing -- for example: hard drives (Seagate) and micro-processors (Intel and AMD)]. Although most Honduran imports of Computers and Peripherals are from the United States, not all of this equipment is made in the United States. Many Asian countries have large distribution centers in Miami; therefore, trans-shipment data is not reflected in Honduran statistics.

The most promising sub-sectors for Honduras are:

- Personal Computers
- Hard disks
- Keyboard units
- Computer monitors
- Server Systems
- Modems
- CD-Rom Drives
- Printer Units

Computer Software/Multimedia:

- Specialized software applications (accounting, financial)
- General Business Application solutions for Windows
- Systems supporting software
- Software development/programming tools
- Software games

Best Prospect Sector for U.S. Exporters to Honduras (US\$ millions)

- |                       |                                       |
|-----------------------|---------------------------------------|
| A. RANK OF SECTOR:    | 8                                     |
| B. NAME OF SECTOR:    | Electrical Power Systems & Components |
| C. ITA INDUSTRY CODE: | ELP                                   |

Comments:

Energy demand in Honduras is growing at approximately 6% a year. The National Electrical Energy Company (ENNE) forecasts needs of approximately 870 MW generating capacity for 2004. In order to meet increasing demand in this sector, the ENNE recently conducted an international bidding process for an additional 210 MW of generating capacity, and plans to open another bid of 150 MW for 2005. At present, electrical power coverage in Honduras is 63%, which means that 2.5 million citizens do not have access to electricity. With demand growing rapidly, ENNE has entered into a period of vigorous expansion efforts aimed at extending its transmission grid to incorporate rural communities in Honduras, as well as expanding the distribution capacity in high growth areas.

Imports of electric power systems, equipment and materials for the Central American region will be mainly determined by the Central American Electric Interconnection System (SIEPAC). In November 2001, the project received financial approval (\$240 million) from the Inter-American Development Bank (IADB). This regional energy integration project is part of the Plan Puebla Panamá (PPP), which requires the construction of 230 kilovolt power transmission lines and substations to create a new transmission backbone extending from Panama to Guatemala (passing through the southern part of Honduras), and from Guatemala back to Honduras.

The Government of Honduras, through the State Modernization Commission, has launched a power sector and restructuring project aimed at attracting private investment and financing. This Presidential Commission is also in charge of coordinating efforts



and activities towards the completion of feasibility studies, private construction and operation of energy projects, particularly in the hydroelectric area (the main source of renewable energy in Honduras).

The following is a list of the most promising sub-sector categories within the industry for the next two years:

- Electrical Power Generators
- Transformers
- Hydraulic Turbines
- Circuit Breakers
- Switch Gear
- Conducting Cable
- Parts of Steam and other Turbines

## **B. Best Prospects for Agricultural Products**

### ***Corn***

A. Rank: N/A

B. Name of Sector: Corn

C. ITA or PS&D Code: 0440000

Narrative: The following data are on a July/June basis. The indicator years specified below correspond to the first year of the split marketing year.

Corn is the grain produced on the largest scale in Honduras and is utilized mainly for human consumption. However, production is not sufficient to satisfy demand. Lack of affordable credit for grain farming, poor seed quality, several consecutive years of weather anomalies, and other factors have prevented Honduras from becoming self-sufficient. Given that production is mostly of white corn, imports of yellow corn from the U.S. are needed to manufacture feed for the poultry, livestock and swine industries. According to the Government 60 percent is for agroindustry (feed, corn meal and snacks) and 40 percent for domestic consumption.

As of mid-July, the situation of agriculture has been favorable by normal climate conditions for the development of major crops, despite identification by the scientific community of the "La Nina" weather phenomenon (which causes rain increase), condition that will not have major impact in Honduras. However, as rains have been scattered soil moisture is low and could affect some crop yield. Preventive actions have been planned by the government such as expansion of irrigation systems in key areas.

Government numbers show a total of 500,000 MT of corn being produced in 2002. For 2003 production is expected to increase to 520,000 MT. Import needs for 2002 were 298,000 MT; in 2003 imports are expected to be 225,000 MT. Export prospects for U.S. corn are bright, as it is expected that Honduras will need to import higher amounts in coming years, and the vast majority of yellow corn imports are likely to come from the U.S. Honduras is ranked 27<sup>th</sup>. place among the leading 35 country markets of U.S. coarse grains imports (the category in which corn is included).

<b>CORN</b>	2000	2001	2002	2003 (projected)
Total Market Size (000 MT)	722	658	798	745
Total Local Production (000 MT)	542	420	500	520
Total Exports (000 MT)	0	0	0	0
Total Imports (000 MT)	180	238	298	225
Imports from the U.S. (000 MT)	169	223	213	200

(STATISTICS ARE UNOFFICIAL ESTIMATES)

### ***Rice (Milled)***

A. Rank: N/A

B. Name of Sector: Rice (Milled)

C. ITA or PS&D Code: 0422110

Narrative: The following data are on a July/June basis. The indicator years specified below correspond to the first year of the split marketing year.

Of all the grains produced in Honduras, rice is produced on the smallest scale. Chronic production problems have not allowed domestic rice farmers to increase their output and keep up with demand. As a result, rice imports have become a necessity in Honduras. Historically, virtually all rice imports have been from the U.S. Local rice millers prefer to import paddy rice for price reasons and to keep their plants running. However, milled rice is also imported into Honduras. In year 2001 the U. S. exported 135,573 MT of rice to Honduras, in 2002 exports increase to 145,441 MT. Honduran import demand is expected to remain strong in 2003. Honduras is ranked 6<sup>th</sup> among the leading 35 country markets for U.S. rice imports.

<b>RICE</b>	2000	2001	2002	2003 (projected)
Total Market Size (000 MT)	117	145	155	160
Total Local Production (000 MT)	5	10	10	12
Total Exports (000 MT)	0	0	0	0
Total Imports (000 MT)	112	135	145	148
Imports from the U.S. (000 MT)	112	135	145	148

(STATISTICS ARE UNOFFICIAL ESTIMATES)

### ***Wheat***

A. Rank: N/A

B. Name of Sector: Wheat

C. ITA or PS&D Code: 0410000

Narrative: The following data are on a July/June basis. The indicator years specified below correspond to the first year of the split marketing year.

Because its land and climate are unsuitable for commercial wheat farming, Honduras does not produce wheat in any significant quantities. Honduras depends on imports to fill its wheat demand. Total imports were 204,000 MT in 2002, with the vast majority coming from the U.S. During the 2003, total imports are expected to increase to 206,000 MT. The U. S. should remain Honduras' main source for wheat, both through commercial channels and donations. Honduras ranks 25<sup>th</sup> among the leading 35 country markets for U.S. wheat imports.

<b>WHEAT</b>	2000	2001	2002	2003 (projected)
Total Market Size (000 MT)	231	172	204	206
Total Local Production (000 MT)	0	0	0	0
Total Exports (000 MT)	0	0	0	0
Total Imports (000 MT)	231	172	204	206
Imports from the U.S. (000 MT)	231	172	204	206

(STATISTICS ARE UNOFFICIAL ESTIMATES)

### ***Meal, Soybean***

A. Rank: N/A

B. Name of Sector: Meal, Soybean

C. ITA or PS&D Code: 0813100

Narrative: The following data are on an October/September basis. The indicator years specified below correspond to the first year of the split marketing year.

The growing poultry and shrimp sectors in Honduras have triggered increasing demand for soybean meal in recent years. Traditionally, Honduras has filled virtually all of its soybean meal demand with U.S. product. Domestic production is negligible and is not likely to increase significantly in the near future. During calendar year 2002 the U.S. exported 71,000 MT of soybean meal to Honduras and in 2003 it is expected to export 76,000 MT. Continued expansion in the feed industry, particularly for poultry production, should continue to fuel the demand for U.S. soybean meal in coming years. Honduras ranks 26<sup>th</sup> among the leading 35 country markets for U.S. soybean meal exports.

<b>SOYBEAN MEAL</b>	2000	2001	2002	2003 (projected)
Total Market Size (000 MT)	71	74	72	77
Total Local Production (000 MT)	1	1	1	1
Total Exports (000 MT)	0	0	0	0
Total Imports (000 MT)	70	73	71	76
Imports from the U.S. (000 MT)	70	73	71	76

(STATISTICS ARE UNOFFICIAL ESTIMATES)

### ***Consumer-Oriented Products***

A. Rank: N/A

B. Name of Sector: Consumer-Oriented Products

C. ITA or PS&D Code: N/A

Narrative: The following data are on a calendar year basis.

Consumer-oriented agricultural exports to Honduras in 2001 registered the highest export levels since at least CY 1970. In 2002 the U.S. exported \$46 million in consumer-oriented products and in 2003 is expected to export \$55 million. Strong demand for imported food products over recent years is due in part to development in food distribution, particularly at the retail level as well as trade liberalization during the 1990's which has provided consumers greater access to imported products.

Products present in the market with good sales potential:

- \* Snack foods
- \* Breakfast cereals & pancake mix
- \* Dog and cat foods (dry type)
- \* Fresh fruit (especially apples, grapes, pears and plums)
- \*\* Red meats, chilled or frozen (specially prime pork and beef cuts)
- Processed fruits & vegetables
- Wine and beer
- 'Other' category of consumer-oriented and intermediate products

\* Products established highest exports levels during 2001 since at least CY1970.

\*\* Products established highest exports levels during 2002 since at least CY1970

Domestically and regionally produced breakfast cereals, snacks, canned goods, juices and beers may offer a significant degree of competition. Nonetheless, U.S. consumer-oriented products enjoy a significant edge in Central America. A significant number of middle income and wealthy consumers in the area have been to the U.S. They know the quality of U.S. products and they are familiar with U.S. brands.

Moreover, many Hondurans have access to U.S. cable TV, which helps influence the purchasing habits and diet of many consumers. The continued expansion of U.S. fast food franchises and considerable development in the tourism sector promise to keep demand for imported food products on the rise.

For further information on the Retail Food Sector, please refer to USDA's latest Retail Food Sector Report and Exporter Guide at [www.fas.usda.gov](http://www.fas.usda.gov)

Consumer Oriented Agricultural Products	2000	2001	2002	2003e
Total Market Size (USD million)	438	465	505	518
Total Local Production (USD million)	751	753	755	757
Total Exports (USD million)	590	593	570	575
Total Imports (USD million)	277	305	320	336
Imports from the U.S. (US million)	55	57	46	55

(STATISTICS ARE UNOFFICIAL ESTIMATES)

## **VI TRADE REGULATIONS, CUSTOMS, AND STANDARDS**

### **A. Trade Barriers, Including Tariffs, Non-Tariff Barriers**

Until the mid-1980's, Honduras' development strategy was based on the import substitution model, supported by protectionist measures and ample public sector intervention. After the 1990 Economic Reform Program, Honduras moved towards a more liberalized international trade regime, aimed at eliminating trade barriers and strengthening its commercial relations with the rest of the world.

Honduras belongs to the Central American Uniform Tariff Schedule (SAC) and the General Treaty for Central American Economic Integration, both of which govern imports into Honduras. The reduction of import duties has remained an important item on the agenda of the Central American countries since 1995. Ad valorem duties are applied to most products and, in some cases, selective consumption taxes.

Imports of vegetable and animal origin must fulfill sanitary conditions. Zoo-sanitary permits are obtained through the Ministry of Agriculture and Livestock, in accordance with sanitary import/export regulations. When considered harmful, imports are regulated by the Ministry of Public Health. In the case of food and beverage products, these must fulfill the same registration requirements established for national products in relation to residual chemical content, artificial flavoring, coloring, and preservatives. Additional information may be obtained through the Food and Agricultural Import Regulations and Standards (FAIRS) Report on Honduras, USDA website [www.usda.fas](http://www.usda.fas).

### **B. Customs Regulations**

The normative and administrative operations of the local custom system are regulated by the Central American Uniform Customs Code (CAUCA) of April 1, 2003. On February 14, 2000, Honduras implemented the WTO Customs Valuation Agreement, which relates to the invoice value (the price actually paid for the goods).

On August 29, 2000 Honduras, along with Nicaragua, joined the customs union formed by Guatemala and El Salvador in 1996. In order to facilitate customs' processing, El Salvador and Guatemala established Satellite Customs' Offices at the Honduran port of Puerto Cortés and the El Amatillo border crossing between Honduras and El Salvador. Implementation of the Customs Union is ongoing and expected to be implemented by the year 2005.

### **C. Tariff Rates and Import Taxes**

The duty assessed by the Honduran government at the time of customs clearance ranges between 0 to 15 percent for most items.

Honduras is a member of the Central American Common Market (CACM), which also includes Guatemala, El Salvador, Nicaragua and Costa Rica. In theory, there are no duties for products traded among CACM members, although exceptions exist. In 1995, members of the CACM agreed to reduce and harmonize the common external tariff (CET) at zero to 15 percent for most products, but allowed each member to determine the timing of the reductions. In 2002, Honduras lifted tariffs on capital goods and raw

materials (including those used for manufacture of pharmaceutical products and agricultural inputs) for those imports produced outside of the CACM. Additionally, tariffs on most non-CACM intermediate goods were reduced to 10% and final goods were reduced to 15%.

Important domestic and import tax changes were recently made under the Financial Balance and Social Protection Act, Decree No. 194-2002 of June 5, 2002. Among the most significant amendments is the duty assessed to the importation of automotive vehicles under tariff headings included in Chapter 87 of the Central American Tariff System (SAC), which was reduced to 15% and an elimination of the tariff based on engine size. Import duties to petroleum derivatives and other non-petroleum fuels purchased by the National Electric Power Company (ENEE) and private sector power generating firms that sell their production to ENEE were also eliminated.

A general 12% sales tax is applied to most products. Goods exempted from this tax include staple foods, fuels, medicines, agro-chemicals, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, tractors, cranes, and computers, among others. Goods and services imported by maquilas and other firms protected under Special Export Development Regimes are also exempted from the sales tax. A 15% sales tax is applied to beer, brandy, compound liquors, and other alcoholic beverages, cigarettes and other tobacco products. This tax is levied on the distributor sale price, minus the amount of the production and consumption tax on both imports and national products. This calculation procedure is also applied to the twelve percent tax on carbonated beverages. A 10% selective consumption tax is also applied to some products considered non-essential, such as alcoholic beverages.

Several changes in grain duties in 1999 culminated in a combination price band mechanism and absorption agreement for corn, grain sorghum, and corn meal. Under the price band mechanism, duties vary from 5% to 45%, depending on the import price. The tariff is calculated every 15 days using international prices plus freight and insurance charges. Under a renewable five-year period, the duty assessed to these products drops to 1% when the end users purchase a predetermined amount of corn and sorghum from farmers. Thus, industry is able to import 3 quintales (1 quintal=22 MT) for each quintal bought from domestic production. Otherwise, the price band remains in effect. The reduction can only take place during the non-harvest season (March through August). Only end-users who have signed the agreement may apply for this preferential treatment. According to the agreement, this mechanism guarantees a market for corn and sorghum producers and establishes a direct communication of supply and demand volumes, purchase and sale prices, thus eliminating commercial intermediaries. While this system for assessing duties is hardly transparent, it seems to be keep farmers, industry, and the government satisfied for the time being.

Rice farmers and millers have also reached a similar absorption agreement. However, in the case of rice, duties have been fixed at 1% for rough rice and 45% for milled rice for signers of the agreement. For everyone else the duty is 45% across the board on all rice products. This agreement, which has the blessing of the Government of Honduras, also appears to satisfy farmers and importers.

In accordance to the "Economic & Social Plan to Stimulate Production and Competition & Promote Human Development" of June 1, 1998, the administrative customs service

was eliminated. Complete information on import tax legislation is available at <http://www.dei.gob.hn>.

#### **D. Import License Requirements**

In general, all import license requirements have been eliminated. However, in the bilateral negotiations on Honduras's accession to the GATT, the Honduran Government committed to using GATT-consistent measures to protect basic grains and poultry. In addition, zoo sanitary restrictions limit market access to fresh, chilled, and frozen poultry meat.

Imports of raw and processed agricultural products are reviewed by the National Plant and Animal Health Service (SENASA) of the Ministry of Agriculture and Livestock. In order to obtain an import permit, all importers of food products, additives, and inputs used in food processing, must submit the following documents to SENASA:

- Phyto or Zoo Sanitary Import Permit Request provided by SENASA
- Certificate of Origin
- Pro- Forma Invoice
- Pre-Application of Inspection

SENASA requests the issuance of Phyto or Zoo Sanitary Certificates by a U.S. federal government authority in the plant where the food products have been processed. SENASA does not accept documents from commercial trading companies. Regarding imports of U.S. poultry products, SENASA has requested USDA to add an Additional Declaration (AD) to the phyto certificates. The AD provides an indication that specific poultry or sub-products have originated in areas free of high or low pathogenic avian influenza. The Animal Plant Health Inspection Service (APHIS) also provides regular updates to local government authorities in connection to the origin of disease outbreaks within the United States. SENASA typically issues an import license within 15 days of receiving the request for import approval. For detailed information on import license requirements, contact FAS Tegucigalpa at <http://www.fas.usda.gov>.

#### **E. Temporary Goods Entry Requirements**

The Temporary Import Law (RIT), enacted in 1984, allows exporters to introduce raw materials, parts, and capital equipment into Honduran territory exempt from surcharges and customs duties as long as the material or part is to be incorporated into a product which is exported outside of the country. This law also provides a 10-year tax holiday on profits from these non-traditional exports, under certain conditions. Interested parties may obtain authorization for this program through the Ministry of Industry and Trade. Amendments made to the RIT law in 1997 allow manufacturers to export their products into other Central American countries. These amendments also enable local importers to resell the machinery and equipment no longer needed, by paying an import duty based on its C.I.F. value.

Companies that do not operate in free trade zones or export processing zones fall under the jurisdiction of the Temporary Import Law. At present, over 500 companies are incorporated into the RIT program.

Temporary entry requirements for goods such as commercial samples, sales displays and other items for use at exhibits and trade shows are established under Article 73 of the Honduran Customs Law, Decree 212-87. Customs legislation allows duty free admission of such products, as well as for items to be used for scientific and entertainment purposes, for up to 3 months. This temporary entry authorization can also be extended for the same period of time, if necessary. Temporary import requirements also apply under Article 74 of the Honduran Customs Law for a period of up to 6 months, such as in the case of products to be used in the execution of construction projects, tourism and recreational activities, and other special private and public works. Temporary entry is granted upon making a deposit equivalent to the import duty applicable to the specific product. The guarantee is refunded at the time of re-exporting the product.

## **F. Import/Export Documentation**

Documents required for import/export are the following:

- Commercial Invoice
- Bill of Lading (for ocean or surface freight)
- Airway Bill (for air freight)
- Certificate of Origin or Certificate of Title for vehicles
- Phyto- or Zoo-Sanitary Certificate (where appropriate)

The Honduran Government insists that sanitary permits be obtained for imported foodstuffs. All commercial imports must also be accompanied by proof that the dollars used to purchase them were acquired through the Honduran commercial banking system.

Honduran law requires all exporters (except for free trade zone or export processing zone exporters) to inform the Central Bank in advance about the quantity, value, and destination of the goods to be exported, as well as the probable date of export and the value and currency of anticipated export revenues.

## **G. Labeling Requirements**

Labeling requirements for merchandise in general are established under Article 9 of the Consumer Protection Law, Decree 41-89 of 1990. Enforcement of marking and labeling regulations is conducted by the General Directorate of Production and Consumption of the Ministry of Industry & Trade. Special regulations also apply to medicines and agricultural products under the Health Code and the Phyto Zoo Sanitary Law, respectively.

In general, labels of all consumer-oriented products are required to include the following basic information: name of the product; name of the manufacturer; country of origin; sales price; elaboration and expiration dates; net content; list of ingredients and any applicable health warnings. Labeling information for products manufactured outside of Honduras should be standardized according to the requirements of their country of origin.

Labeling requirements for food products are very specific. Honduran law requires that all processed food products be labeled in Spanish and registered with the Division of Food



Control (DFC) of the Ministry of Public Health. For detailed information contact FAS Tegucigalpa at <http://www.fas.usda.gov>

#### **H. Prohibited Imports**

Under the recently enacted Financial Balance and Social Protection Act, imports of ground motor vehicles over seven years old and passenger buses over ten years old are prohibited, except for those considered to be classic collectible cars. Imports of refurbished and right-hand drive vehicles are also prohibited. Import restrictions are also imposed on firearms and ammunition, toxic chemicals, pornographic material, and narcotics. Import restrictions are mostly based on phyto-sanitary, public health, and national security factors.

Honduras did not negotiate any tariff rate quotas when it became a member of the WTO. It does however, have limitations on imports of rice and corn in order to protect local production. Imports of these two products during harvest time are not allowed. In addition, Honduras does not allow imports of fresh, chilled, or frozen poultry meat due to phytosanitary barriers.

#### **I. Warranty and Non-Warranty Repairs**

Duties/taxes charged on replacement parts, or on goods brought in temporarily for repair and re-exported are covered by the Temporary Import Law (RIT) and Export Processing Zone regimes.

#### **J. Export Controls**

Export controls have only been used for sugar exports. Exporters must demonstrate sufficient supplies to meet domestic needs prior to receiving permission to export. Certain restrictions also apply to particular wood and animal species. The only items under price control are coffee and medicines. Export taxes on seafood, sugar and live cattle were eliminated in 1998. All coffee exports must be registered with the Honduran Coffee Institute.

#### **K. Standards (E.G. ISO 9000 Usage)**

Honduras has been a member of the International Standards Organization (ISO), through the Science and Technology National Council (COHCIT), since January 2000. COHCIT has established an information center to service local firms interested in obtaining all details related to norms and standards for ISO certification. In addition, the Standards and Metrology Division of the Ministry of Industry and Trade has recently established a Quality Management Technical Committee, which is responsible for reviewing ISO 9000 and ISO 14000 technical norms before submitting a formal certification request to the National Council. ISO certification for local companies is currently conducted through the COHCIT, as well as through legally credited international institutions. According to information provided by COHCIT, a total of 13 local companies are currently certified under ISO 9001 and ISO 14001, and a total of 6 are in the process of obtaining certification.

## **L. Free Trade Zones/Warehouses**

Free trade zones (FTZ) are non-residential areas designated by the government where companies receive special benefits. FTZs can be managed privately or by the National Port Authority (E.N.P.). The E.N.P. approves all permits to operate in the designated areas and maintains the established guidelines put forth in the FTZ. The FTZ law was originally established to create the Puerto Cortés Free Zone. In 1998, however, the government extended FTZ benefits to the entire nation.

A company located in a free trade zone, industrial park or export processing zone (ZIP) is exempt from paying import duties on goods and capital equipment, charges, surcharges, selective consumption taxes, and sales taxes. In addition, the production and sale of goods within these areas is exempt from Honduran federal and municipal taxes. Firms operating in these zones are exempt from income tax for 20 years and municipal taxes for 10 years, and there are no controls or restrictions over the use of foreign exchange or the repatriation of capital profits. The movement of imported components and exported products is handled with a minimum of paperwork and is normally done within hours. Firms operating in the FTZ must grant workers all benefits established by Honduran labor legislation.

Privately owned Tourism Free Zones (ZOLT) may be established to promote tourism industry development in Honduras. Legislation covering ZOLTs allows the free importation of equipment, supplies and cargo/passenger vehicles that will exclusively benefit the ZOLT and the construction of its installations. Import benefits also apply to boats, yachts, and aircraft that will be used exclusively for the Tourism Free Zone. Authorization requests for operating a ZOLT must be approved by the Ministry of Tourism and the Ministry of Industry and Trade. Revenues generated in ZOLTs are subject to Central Bank regulations.

## **M. Membership in Free Trade Arrangements**

The final act of the Multilateral Commercial Negotiations of the Uruguay Round, which established the World Trade Organization (WTO), was signed by Honduras on April 15, 1995. Honduras is also a member of the Central American Common Market (CACM) since 1961, which includes Costa Rica, El Salvador, Nicaragua, and Guatemala. Panama, although not a full member of the CACM, has participated in CACM activities. As of May 2003, the harmonized tariff level as common external tariff between CACM countries was 77% of the entire customs duty schedule.

Members of the Northern Triangle CA-3 (Honduras, Guatemala, and El Salvador) signed a free trade agreement (FTA) with Mexico that went into effect in June 2001. In addition, the CA-3 has had an exchange of a limited trade agreement proposal with the Andean Community. Honduras has also signed limited trade agreements with Colombia and Venezuela. At the regional level, a free trade agreement went into effect with the Dominican Republic in December 2001. Regional FTA negotiations are also ongoing with Canada, Chile and the Republic of Panama. Honduras, along with other three Central American countries, reached a free trade agreement with the U.S. on December 2003. The CAFTA agreement aims to abolish nearly all trade barriers between participating countries over the next decade.

Since April 1998, Honduras continues to participate as a member of the CA-4 block in negotiation rounds for the Free Trade Area of the Americas (FTAA). Preliminary talks for strengthening commercial relationships through FTAs have also taken place with China (Taiwán), Mercosur and Caricom countries.

Honduras benefits from three preferential trade arrangements with the United States. Special export arrangements have been established through the Caribbean Basin Economic Recovery Act (CBERA), the Generalized System of Preferences (GSP), and the "9802 Textile Program." Both CBERA and GSP provide unilateral and temporary duty-free trade preferences to designated countries, including Honduras, by the United States. Enhanced CBI benefits for the maquila sector granted October 1, 2000 were a boom to the national maquila industry. For the consecutive period 1999-2003, Honduras has had the first place rank as CBI and Central American supplier to the U.S. market. The 9802 Program provides for reduced duties and liberalized textile and apparel quotas under HTS subheadings 9802.00.60 and 9802.00.80.

#### **N. Customs Contact Information**

The Honduran Customs Directorate operates under the Ministry of Finance. Primary contact information is as follows:

***Customs and Tax Division (Dirección Ejecutiva de Ingresos – DEI)***

Address: Ave. Cervantes, Plaza Morazán, Tegucigalpa, Honduras

Apdo. Postal 6343, Tegucigalpa, M.D.C.

Telephone: (504) 236-8743, 221-5594

Fax: (504) 221-5593

E-mail: albania\_s@dei.gob.hn

Web site: www.dei.gob.hn

Director: Lic. Mario Duarte Caballero

Deputy Directors: Lic. Marlen Urtecho; Lic. Rosa Marina Durón

### **VII. INVESTMENT CLIMATE**

#### **A.1. Openness to Foreign Investment**

The Honduran government is generally open to foreign investment and welcomes it. Restrictions and performance requirements are fairly limited. U.S. companies tend to encounter problems investing in infrastructure and a few visible large projects like the airport, telecom and energy sectors, as domestic companies seek ways to keep the competition out.

Since 1999, the Honduran government has taken steps, including additional legislative measures, to create a more favorable investment climate in key sectors including mining, energy and tourism, although their potential has yet to be realized. Relatively low labor costs, proximity to the U.S. market and Central America's best Caribbean port have also made Honduras increasingly attractive to investors. At the same time, however, Honduras' investment climate is hampered by high levels of crime, juridical insecurity, high levels of corruption, low educational levels among the population, an antiquated labor code, a troubled financial sector and limited infrastructure.

The Constitution of Honduras requires that all foreign investment complement, but not substitute for, national investment. Companies that wish to take advantage of the Agrarian Reform Law, engage in commercial fishing, forestry, or local transportation activities, serve as representatives, agents, or distributors for foreign companies, or operate radio and television stations must be majority-owned by Hondurans.

The 1992 Investment Law, which still largely governs investment conditions in Honduras, guarantees national treatment to foreign private firms in Honduras, with only a few exceptions. The law does not limit foreign ownership of businesses, except for those specifically reserved for Honduran investors, i.e., small firms with capital less than 150,000 Lempiras (approx. USD 8,600). For all investments, at least 90 percent of a company's labor force must be Honduran, and at least 85 percent of the payroll must be paid to Hondurans. Under the 1992 law, dividends to foreign investors were taxed at 15 percent, while local investors paid only 10 percent. However in 2002 a revised law was passed which lowered this tax rate to 5 percent for both foreign and local investors, and will eliminate this tax entirely by 2004.

Additionally, government authorization is required for both foreign and domestic investors in the following areas:

- Basic health services,
- Telecommunications,
- Generation, transmission, and distribution of electricity,
- Air transport,
- Fishing, hunting and aquaculture,
- Exploitation of forestry resources,
- Investigation, exploration, and exploitation of mines, quarries, petroleum and related substances,
- Agricultural and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974,
- Insurance and financial services, and
- Private education services

Foreign firms are granted national treatment for public bids. In practice U.S. firms complain about the mismanagement and lack of transparency of government bid processes. Under the 2001 State Contracting Law, all public works contracts over one million Lempiras (USD 56,000) must be offered through public competitive bidding. The government publishes tenders in Honduras' major newspapers. To participate in public tenders, foreign firms are required to act through a local agent. Local agency firms must be at least 51 percent Honduran-owned, unless the procurement is linked to a national emergency. Government purchases and project acquisitions are generally exempted from import duties.

The 1992 Investment Law requires that all local and foreign direct investment be registered with the Investment Office in the Ministry of Industry and Trade. Upon registration, an investor is issued an investment certificate which provides investment protection under the law and guarantees investors' international arbitration rights. The registration process is cumbersome and companies can expect delays in registering their company.

In July 2002, the Government of Honduras ratified a law on simplification of administrative procedures in establishing a company. Through this new legislation, the government hoped to streamline procedures and eliminate a series of administrative obstacles involved in the process, reducing the steps for establishing an office from up to six months to a maximum of 40 days. Foreign businesses setting up operations in Honduras are subject to the Commercial Code, which is also undergoing various important reforms. The Commercial Code recognizes several types of mercantile organizations: individual ownership, general partnership, simple limited partnership, limited liability company, corporation and joint stock company.

Management of Honduras' four international airports was turned over to a consortium with majority U.S. investment in October 2000, the only major privatization effort in recent years. A dispute over the financing of certain projects that the consortium agreed to undertake soon developed, and a re-negotiated agreement between the consortium and the government is expected to be finalized soon.

A bid to privatize the national telephone company failed in 2001 and will not be attempted again until 2005. In late 2001, the GOH decided to open the telecom market by bidding out one of Honduras' available wireless bands. After several delays, the government awarded one wireless system concession in April 2002, and the company is expected to be in service by December 2003. The Honduran government intends to allow private joint ventures with Hondutel to improve coverage and service beginning in August 2003, and later to encourage private participation in the sale of shares in Hondutel to private interests beginning in 2004 with the goal of full privatization in 2005.

The National Electric Company (ENEE) turned over most of its thermal energy generation to the private sector but retains responsibility for electricity transmission and distribution, as well as for almost all hydroelectric energy generation and distribution throughout the country. The GOH is working on a project to break up ENEE distribution and is working towards privatization, though there is no firm timeline set.

The GOH hopes to begin privatizing some port operations in September, 2003 and is working with the U.S. Trade and Development Agency to expand and modernize Puerto Cortes. The ENP and the World Bank are working to meet International Maritime Organization requirements for port security by July 1, 2004, including the creation of an autonomous unit which will be responsible for the port security program.

A law is currently before Congress which would formally grant municipalities the right to manage water distribution themselves, and possibly to grant concessions to private enterprises. However the law has generated a good deal of controversy from opposition groups which claim that it amounts to "privatization" of water distribution, and its progress through Congress has been slowed.

## **A.2. Conversion and Transfer Policies**

The 1992 Investment Law guarantees foreign investors access to foreign currency needed to transfer funds associated with their investments in Honduras. This includes:

- Imports of goods and services necessary to operate,
- Payment of royalty fees, rents, annuities and technical assistance, and

- Remittance of dividends and capital repatriation.

The Central Bank uses an auction system to regulate the allocation of foreign exchange. According to auction system regulations, dollar purchases are conducted at 7 percent above or below the base price established every 5 days. During recent auctions, the Central Bank has adjudicated an average of USD 10.3 million per auction (held each business day). All individuals, foreign residents or national, can participate in auction system dollar purchases with a minimum investment of USD 5,000 and a maximum of USD 300,000. Foreign exchange demand in 2002 was 99.9 percent covered, and the currency depreciated by 6.3 percent.

### **A.3. Expropriation and Compensation**

The Honduran government has the authority to expropriate property for purposes of land reform (usually related to a land invasion by farmer groups) or for public use such as construction of an airport. Land disputes related to actions by the Honduran National Agrarian Institute (INA) are common for both Honduran and foreign landowners. According to the National Agrarian Reform Law, idle land fit for farming can be expropriated and awarded to landless poor. Generally, an INA expropriation case begins after squatters target and invade unprotected property. The squatters then file for the land with the INA under the Agrarian Reform Law. In most cases, claimants have found that pursuing the subsequent legal avenues is costly and time consuming, and rarely lead to positive results. Compensation for land expropriated under the Agrarian Reform Law, when awarded, is paid in 20-year government bonds.

Land title disputes are extremely common in Honduras. Even areas which have been subjected to a cadastral survey have not been free of land disputes, as the lack of a single unified land registry makes adjudication of land tenure difficult. As of July 2003, a proposal is before congress for a new property institute which would combine the national land registry with the cadastral survey and the geographic institute. The proposed property institute would provide for more security in land titling and ownership in Honduras, as well as allow for mortgages and home loans. The national land survey project has been completed in the Bay Islands and is close to completion in the Comayagua area. Tegucigalpa and San Pedro Sula are scheduled for the next phase of the project.

### **A.4. Dispute Settlement**

The Honduran Commercial Code is the main legislation that regulates the operations of businesses in the country. This code, though, is antiquated and needs to be updated. The application of the Commercial Code and its regulations fall under the jurisdiction of the Honduran civil court system.

Most investment and property disputes are long lasting and arduous. U.S. claimants frequently complain about the lack of transparency and the slow administration of justice in the courts. There are also complaints that the Honduran judicial system caters to favoritism, external pressure and bribes. While some U.S. firms have satisfactorily resolved their cases through the courts, the majority have difficulty navigating the legal system. U.S. citizens also complain about the quality of Honduran attorneys. The government frequently blames the poor quality of a U.S. citizen's (Honduran) legal representative as the reason for an unfavorable outcome in the courts.

The process to resolve squatter cases or title disputes through the courts can be lengthy and frustrating. The legal owner of land is at a disadvantage in a system that recognizes adverse possession rights acquired by squatters, especially when the disputed land is rural and idle.

### **Arbitration**

Between 1997 and 2001, the Inter-American Development Bank worked with the Chamber of Commerce and Industry to establish the framework for commercial arbitration. Honduras' Conciliation and Arbitration Law (Decree 161-2000), which seeks to encourage arbitration and clarify the procedures under which arbitration takes place, entered into force in March 2001. In September 2001, Centers for Conciliation and Arbitration were established within the Chambers of Commerce and Industry in Tegucigalpa and San Pedro Sula. Since that time, the Center in Tegucigalpa has trained 17 arbitrators who work part-time, and they have completed 2 arbitrations and 18 conciliations. Approximately 5 arbitrations and 20 conciliations are pending in the Tegucigalpa Center. Arbitration and conciliation are generally considered swifter and more cost-effective means of resolving disputes between commercial entities, and there may be the additional advantage that the arbitrator or mediator may have specialized expertise in the technical area involved in the dispute. However the only U.S. company to have gone through an arbitration process to date was disappointed with both the procedure (which it regarded as lacking in transparency) and the result (which was unfavorable to the U.S. company).

Honduras is not a member of the ICSID (International Center for the Settlement of Investment Disputes).

### **A.5. Performance Requirements/Incentives**

There are relatively few performance requirements in Honduras. The 1992 Investment Law guarantees freedom to export and import to all foreign investors, and eliminates the requirement of prior administrative permits and licenses, except for statistical registries and customs procedures.

Application procedures for service suppliers in all sectors are generally simple, clear and non-discriminatory. There are restrictions preventing foreign banks from taking deposits, and foreign insurance companies may be subject to a more elaborate administrative process than national providers per a new Insurance Law (though the Embassy has not received any complaints). Honduras' service sector is widely accessible to foreign companies, including current U.S. participation in the Honduran banking, insurance and accounting markets.

Honduran law prohibits discriminatory or preferential export and import policies affecting foreign investors. In practice, though, the Honduran government uses phyto-sanitary and zoosanitary requirements to prevent imports of U.S. poultry, milk products, pork, feed grains and rice to Honduras. The changes in sanitary and phyto-sanitary requirements are seldom reported to the WTO as required and create uncertainty among U.S. suppliers and Honduran importers.

Honduran law requires that all imported processed food products and medicines be labeled in Spanish or be accompanied by a Spanish translation, show expiration dates and be registered at the Division of Food Control in the Ministry of Public Health. Additional import restrictions, based mainly on public health, public morality, and national security grounds, remain in place. For example, restrictions are imposed on the importations of firearms and ammunitions, toxic chemicals and pornographic material.

U.S. citizens wishing to travel to Honduras do not need a visa prior to arrival. Foreigners interested in working in the country must obtain a resident visa from the Honduran Ministry of Government and a work permit from the Ministry of Labor. The time required to process a request for a resident visa and work permit may take up to three months.

#### **A.6. Right to Private Ownership and Establishment**

The Investment Law guarantees both local and foreign investors the right to own property without limitations, other than those established by the Honduran Constitution and several laws relating to property rights. This guarantee includes the right to free acquisition, profit, use, disposition and any other right attributable to property ownership. The major exception is the constitutional prohibition of foreign ownership of land within 40 kilometers of international borders and shorelines, although Honduran law now permits foreign individuals to purchase properties in designated "tourism zones."

Investors have the right to freely establish, acquire and dispose of interests in business enterprises at market prices, under freely negotiated conditions and without government intervention. Private enterprises compete on an equal basis with public enterprises with respect to access to markets, credit and other business operations.

#### **A.7. Protection of Property Rights**

##### **Intellectual Property Rights**

There is widespread piracy of many forms of copyrighted works in Honduras -- movies, sound recordings and software. The illegitimate registration of well-known trademarks has also been a problem. Protection of Intellectual Property Rights (IPR) is handled by the Ministry of Industry and Trade. In 1994, following the passage of modern IPR legislation by the Honduran Congress, the Ministry established an office to process the registration of patents, trademarks and copyrights, as well as any complaints regarding their infringement.

Honduras largely complied with the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement by the January 1, 2000, deadline. In December 1999, the Honduran Congress passed two laws to correct deficiencies in previous legislation concerning copyrights, patents and trademarks. The Copyright Law adds more than 20 different criminal offenses related to copyright infringement and establishes fines and suspension of services that can be levied against offenders. The Law of Intellectual Property, which covers both trademarks and patents, includes modifications on patent protection for pharmaceuticals, extending the term from seventeen to twenty years to meet international standards. The term for cancellation of a trademark for lack of use has been extended from one year to three years. As soon as two new laws governing the designs of integrated circuits and plant variety protection are approved by the National Congress, Honduras will be in complete TRIPS compliance. Current



expectations are that no action will be taken on these two laws until early 2004, but that the laws will then be included in a larger bill that is likely to pass.

Honduras and the U.S. initialed a bilateral IPR agreement in March 1999. Signing of this agreement is still pending. Honduras became a member of the World Intellectual Property Organization (WIPO) in 1983, and became party to the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonogram Treaty (WPPT) in May 2002. Honduran law protects data exclusivity for a period of five years, and protects process patents, but does not recognize second-use patents.

## Land Rights

Honduran laws and practices regarding real estate differ substantially from those in the United States, and there are many cases of disputed or fraudulent deeds and titles. In addition, the Honduran judicial system is weak and inefficient, often prolonging disputed cases for many years before resolution. There have been claims of widespread corruption in land sales and the registry and dispute resolution process, including claims against attorneys, real estate companies, judges and local officials. U.S. citizens have spent thousands of dollars in legal fees and years of frustration in trying to resolve property disputes.

Article 107 of the Honduran Constitution prohibits foreign ownership of property in Honduras that lies within 40 kilometers (25 miles) of the Caribbean Sea, Gulf of Fonseca or the international borders of Nicaragua, El Salvador and Guatemala and on any of the islands and cays belonging to Honduras.

However, recognizing that the constitutional prohibition of foreign property ownership in Honduras was a barrier to development of tourism and the economic potential of Honduras' coastal and island areas, the Honduran National Congress passed Decree Law 90/90 in 1990 to allow foreigners to purchase properties in designated tourism zones established by the Ministry of Tourism in order to construct permanent or vacation homes. Foreigners or foreign companies seeking to purchase property in designated tourism zones exceeding 3,000 square meters in size or for tourism or other development projects must present an application to the Honduran Tourism Institute at the Ministry of Tourism. In addition to providing the requested personal information, the potential buyer must also prove that a contract to buy a specific property exists and that it is registered with the Honduran Tourism Institute. The buyer must also present feasibility studies and plans about the proposed tourism or economic development project.

In 1999, the Honduran National Congress also passed a Tourism Incentives Law which offers tax exemptions for national and international investment in tourism development projects in Honduras. The law provides income tax exemptions for the first ten years of the project and permits the duty-free import of goods needed for the project, including publicity materials. In June 2002 a reformed law was passed, offering the same basic incentives, but with a narrower definition of who may qualify for the incentives. For example, restaurants were included as a duty-free tourist activity in the 1999 law, but removed in the 2002 law. This change is due in large part to the current saturation of the fast food and restaurant market, since many franchises established locations in Honduras under the duty-free incentives of the 1999 law. Other enterprises now excluded from the law's benefits are casinos, night clubs and movie theaters. In

addition, a requirement was added that a business must be located in a designated tourism zone in order to qualify for tax exemptions and duty-free status.

#### **A.8. Transparency of the Regulatory System**

The Honduran government does not publish regulations before they enter into force and there is no formal mechanism for providing proposed regulations to the public for comment. Regulations must be published in the official “Gazette” in order to enter into force. Honduras lacks an indexed legal code and lawyers and judges must maintain and index the publication of laws on their own.

Foreign market participants who are represented locally and are members of connected private sector groups essentially have access to the same information as their Honduran counterparts. The lack of a formal notification process excludes most non-governmental groups, including foreign companies, from commenting on regulations.

Application procedures for service suppliers in all sectors are generally simple, clear and non-discriminatory. There are restrictions preventing foreign banks from taking deposits, and foreign insurance companies may be subject to a more exhaustive administrative process than national providers per a new Insurance Law (though the Embassy has not received any complaints). Honduras’ service sector is widely accessible to foreign companies, including current U.S. participation in the Honduran banking and insurance markets.

In both the banking and insurance sectors, the general rule is that foreign companies operate on an equal footing with local companies, so long as the foreign company establishes a branch or subsidiary in Honduras. However, there are restrictions on cross-border services and offshore operations. Insurance may not be offered on a cross-border basis, and a foreign bank wishing to operate offshore must establish a representative office in Honduras, which entails reporting requirements and other procedures which are very cumbersome. Furthermore, a Honduran branch of foreign bank may only operate based on its capital in Honduras, not on its global or regional capital.

Honduran labor laws and the civil procedures code are outdated. The Honduran government often lacks the resources or political will to implement or enforce existing laws. Property registration often is not up to date, nor can the results of title searches be relied upon. There is no title insurance in Honduras. Procedural red tape to obtain government approval for investment activities is still very common.

#### **A.9. Efficient Capital Markets and Portfolio Investment**

There are no government restrictions on foreign investors’ access to local credit markets. However, the local banking system is conservative and generally extends only limited amounts of credit. Interest rates have been steadily declining for several years, but remain high. As of April 2003, the average lending rate for a loan in Lempiras was 21.1 percent, down from 23.1 percent a year earlier, and for a loan in dollars was 10.7 percent, down from 11.6 percent a year earlier. Local banks should not be considered a significant source of start-up capital for new foreign ventures, unless they use specific business development credit lines made available by bilateral or multilateral financial

institutions, such as the Central American Bank for Economic Integration. Loans from banks tend to be short-term, with substantial collateral and/or guarantee requirements.

There is a limited number of credit instruments available in the local market. Two security exchanges operate in the country: the Honduran Securities Exchange (BHV), in San Pedro Sula, and the Central American Securities Exchange, in Tegucigalpa. Both security exchanges are supervised by the National Banking and Insurance Commission. The instruments traded in these exchanges include bankers' acceptances, repossession agreements, short-term promissory notes, Honduran government private debt conversion bonds and land reform repayment bonds.

While any private business is eligible to trade its financial instruments on the security exchanges, firms that participate are subject to a rigorous screening process. Traded firms generally have economic ties to the different business/financial groups represented as either shareholders of the security exchanges or exchange trading houses. Supervision of the security exchanges has traditionally been inadequate, and even though a new law regulating the security exchanges was passed in June 2001, implementation has taken place slowly. By July 2003, implementation was nearly complete and expected to be completed by the end of the year. Nevertheless, investors should exercise caution before putting money into the Honduran security exchange.

There is no regulatory body for the accounting profession in Honduras. The Association of Public Accountants is responsible for certifying practicing professionals. In general, Honduran businesses adhere to international Generally Accepted Accounting Principles (GAAP). These principles are normally applied per guidelines from the Ministry of Finance's General Directorate for Taxation.

The Honduran banking system, currently comprised of 18 private banks, is considered weak and in need of consolidation. Most banks were originally founded primarily to service the financing needs of family-run business conglomerates, rather than provide full banking services to the public in a transparent manner.

In recent years, the Honduran banking system has been shaken by the bankruptcy of several major banking institutions. The first bank to collapse was Bancorp in 1999. In response to this collapse, the Honduran legislature enacted the Temporary Law of Financial Stabilization in an attempt to help stabilize the banking sector. Under this law, all bank deposits are insured by the State regardless of the sum. Currently, the Honduran government guarantees 100 percent of bank deposits, with the deposit insurance program (FOSEDE) paying up to \$10,000 or 150,000 Lempiras, and the government covering the remaining amount. After September 30, 2003, however, the government's guarantee will drop to 50 percent of the deposit. As in other countries, this deposit insurance only covers qualified deposits in banks, not in uninsured financial institutions.

When Banhcreser collapsed in 2001, the rules established in the temporary law helped to protect the bank's customers. With both the collapses of Banhcreser and Bancorp, allegations of corruption and wrongdoing followed the investigations into the causes of the bank's failures.

In December 2002, the National Banking and Insurance Commission (CNBS) announced the forced liquidation of Banco Capital, which had been under government

supervision since May 2002. At nearly the same time another bank, Banco Sogerin, was placed under the supervision of the Honduran Deposit Insurance Fund (Fosede). With both Banco Sogerin and Banco Capital failing at the same time, the CNBS delayed the initial sale of Banco Sogerin for several months to prevent wider damage to the banking system. The sale of Banco Sogerin was finally announced in July 2003.

The mixed success of CNBS's handling of the failed banks has attracted some criticism. Certain Honduran banking officials have criticized the CNBS for adding too many generalized rules with too many loopholes and for not enforcing the established banking regulations.

The Honduran financial system had total assets equivalent to 75 percent of GDP in 2002. The financial system is comprised of commercial banks, state-owned banks, savings and loans and finance companies. Banks account for 90 percent of total assets in the financial system. There is limited off-shore banking in Honduras.

There are no legal barriers to entry in the banking sector, but the small size of the market and weak financial situation have discouraged greater foreign investment. Four banks have majority foreign ownership as of 2002, accounting for 19 percent of total bank capital.

#### **A.10. Political Violence**

Honduras has not experienced major problems with domestic political violence. Political demonstrations do occur sporadically, and they can disrupt traffic, but they are generally announced in advance and are usually peaceful. Most major demonstrations occur in downtown Tegucigalpa. Travelers should avoid areas where demonstrations are taking place, and they should keep informed by following the local news and consulting hotel personnel and tour guides.

#### **A.11. Corruption**

Two codes regulate justice and provide for penalties against corruption: the Criminal Procedures Code (CPC) and the Penal Code (PC). In a landmark reform, the National Congress approved a new CPC in February of 2000, which entered into force in February 2002. The criminal judicial system has changed from a traditional written inquisitorial trial system to an adversarial, oral, and public trial system. The new CPC should improve justice and accountability in a number of ways, including increased transparency in the criminal process. The PC is currently under review and faces challenges in terms of funding and support.

The main responsibility for fighting corruption lies with the Public Ministry, under the direction of the Attorney General (Fiscal General). In January 2002, the Government created a new control entity, the Supreme Court of Accounts (TSC) which has brought together the Comptroller General of the Republic (CGR), the Directorate of Administrative Probity (Ethics office) and the Office of State Assets under one roof and direction of three members selected by the Congress. These three members are appointed for a period of 7 years. The presidency of the TSC is exerted in a rotating manner within the elected members for periods of one year. In the past few years, there has been an increase in the number of cases involving corruption adjudicated by the courts.

In June 2002, new money laundering legislation entered into force. The new bill expands the definition of the crime of money laundering to encompass any non-economically justified sale or movement of assets, including financing of terrorism, and calls for the creation of a financial information unit to track suspicious transactions. The bill also strengthens the powers of prosecutors to investigate and prosecute. However, as of July 2003, not a single person has ever been convicted of money-laundering in Honduras.

In May 1998, Honduras ratified, adopted and deposited its signature for the Inter-American Anti-Corruption Convention at the Specialized Conference of the Organization of American States (OAS).

Historically, U.S. firms and private citizens have found corruption to be a problem and a constraint to investment. Corruption appears to be most pervasive in government procurement, government permits, and in the buying and selling of real estate (land titling). With considerable U.S. help, the government is reforming Honduras' judicial system and reducing elite immunity and corruption, though serious problems remain in these areas. The U.S. and other donors, as part of the Hurricane Mitch reconstruction effort, have contributed significant funding to strengthen those institutions involved in the oversight of government expenditures.

Bribery is a criminal act and, depending on the degree of the offense, is subject to fines or incarceration. A bribe to a foreign official is also a criminal act under U.S. law (Foreign Corrupt Practices Act).

## **B. Bilateral Investment Agreements**

On July 12, 2001, a Bilateral Investment Treaty (BIT) between the U.S. and Honduras entered into force. The Treaty provides for equal protection under the law for U.S. investors in Honduras and permits expropriation only in accordance with international law standards and accompanied by adequate compensation. U.S. investors in Honduras also have the right to submit an investment dispute to binding international arbitration. The U.S.-Honduras Treaty of Friendship, Commerce and Consular Rights (1928) provides for Most Favored Nation treatment for investors of either country. The U.S. and Honduras also signed an agreement for the guarantee of private investments in 1955 and an agreement on investment guarantees in 1966. Honduras signed a Tax Information Exchange Agreement with the U.S. in 1992.

Provisions for bilateral investment are included in commercial treaties between Honduras and Costa Rica, El Salvador, Guatemala, Panama and the Dominican Republic. In 1993 Honduras signed bilateral investment agreements with the United Kingdom and Spain.

## **C. OPIC & Other Investment Insurance Programs**

The U.S. Overseas Private Investment Corporation (OPIC) provides loan guarantees, which are typically used for larger projects, and direct loans, which are reserved for projects sponsored by or substantially involving U.S. small businesses and cooperatives. OPIC can normally guarantee or lend from USD 100,000 to USD 250 million per project.

OPIC also offers insurance against risks of currency inconvertibility, expropriation and political violence.

Other countries, including Germany, the United Kingdom, Taiwan, Spain, Italy, Switzerland and Japan provide insurance and guarantees for their companies doing business in Honduras. In addition, Honduras is a party to the World Bank's Multilateral Investment Guarantee Agency (MIGA).

#### **D. Labor**

Honduras has a significant availability of labor for industries with a demand for relatively low skilled workers, given the low level of education of a significant portion of its population. There is a limited supply of skilled workers in all technological fields, as well as in medical and high technology industries.

Union officials remain critical of what they perceive as inadequate enforcement by the Ministry of Labor (MOL) of workers' rights, particularly the right to form a union and bargain collectively, and the reinstatement of workers unjustly fired for union organizing activities. In November 1995, the MOL signed a Memorandum of Understanding with the U.S. Trade Representative's Office to implement 11 recommendations for enforcement of the Honduran Labor Code and the resolution of disputes. The MOL has implemented some of these recommendations, particularly as they relate to inspection and monitoring of assembly-for-export factories (maquilas). However, it has been slow to implement others due to resource constraints. Also, the Honduran Maquiladora Association initiated a code of conduct in July 1998 for the Maquiladora Association and its constituent companies. Through cooperation within the bipartite and tripartite commissions (unions, MOL, private sector) and other venues, MOL inspectors' access to maquila plants to enforce the labor code has improved, and MOL has continued to work to increase its effectiveness in enforcing worker rights and child labor laws.

The labor law prescribes a maximum 8-hour workday and 44-hour week. There is a requirement for at least one 24-hour rest period every week. The Labor Code provides for a paid vacation of 10 workdays after one year, and of 20 workdays after four years. The Constitution and Labor Code prohibit the employment of persons under the age of 16, except that a 15-year old may be permitted to work with the written permission of parents and the MOL. All persons under 18 years of age are prohibited from night work, dangerous work and full time work.

The Children's Code (September 10, 1996) prohibits a person of 14 years of age or less from working, even with parental permission, and establishes prison sentences of 3 to 5 years for individuals who allow children to work illegally. An employer who legally hires a 15-year-old must certify that the young person has finished or is finishing compulsory schooling. The MOL grants a number of work permits to 15-year-olds each year. Document fraud is prevalent among minors interested in working.

#### **E. Foreign Trade Zones/Free Ports**

There are no known export subsidies provided by the Honduran government. The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts and capital equipment (except vehicles) into Honduras exempt from surcharges and customs duties if the input is to be incorporated into a product for export (up to five percent can

be sold locally). Export processing zones (ZIPS and ZOLIS) are exempt from paying import duties and other charges on goods and capital equipment. In addition, the production and sale of goods within the ZIPS and ZOLIS are exempt from state and municipal income taxes for the first ten years of operation. Companies operating in an export processing zone are permitted unrestricted repatriation of profits and capital and have access to onsite customs facilities. However, companies are now required to purchase the Lempiras needed for their local operations from Honduran commercial banks or from foreign exchange trading houses registered with the Central Bank.

The principal free trade zone (FTZ) in Honduras is located in Puerto Cortes and is operated by the Honduran government through the National Port Authority. In 1998, the government extended FTZ benefits to the entire country. Privately-owned free trade zones are legal extensions of official free trade zones. In terms of operations and incentives, they are identical to the privately operated industrial parks.

There are 27 industrial parks currently operating in Honduras. Over 80 percent of the parks are located in the North Coast region, with close access to Puerto Cortes, Honduras' major Caribbean port, and San Pedro Sula, a transportation crossroads. Industrial parks and export processing zones are treated as offshore operations. Subsequently, customs duties must be paid on products manufactured in the parks and sold in Honduras. In addition, if Honduran inputs are used in production, they are treated as exports and must be paid for in U.S. dollars. Ninety percent of the companies that operate in these parks are involved in apparel assembly. The government and park operators are seeking to diversify into other types of light industry, including footwear, automotive parts, electronics assembly and data processing services.

Privately-owned Tourism Free Zones (ZOLT) may be established to promote the tourism industry development in Honduras. The law allows the free importation of equipment, supplies, and vehicles to the exclusive benefit of the ZOLT, with certain restrictions (see the description of the tourism law in section A.7, above).

Honduras currently ranks as the third largest exporter of textiles and apparel to the U.S., and the first among Central American nations. However, the slowdown and sluggish recovery of the U.S. economy during 2001 and 2002 continue to have a depressing effect on the Honduran maquila sector, and the future is clouded by fears of being unable to compete with China and other Asian producers after the removal of quotas in 2005. Benefits under the Caribbean Basin Trade Partnership Act (CBTPA) have helped to establish the maquila industry in Honduras, but officials in the maquila sector hope that improved market access and rules of origin currently under negotiation for the Central America Free Trade Agreement (CAFTA) will provide increased opportunities.

Total investment in the maquila sector surpassed USD 1.5 billion in 2002, but employment in the sector has fallen by 15 percent from 2000 to 2002. One reason for this decrease in employment is the closing of 13 maquilas in 2002 as a result of the U.S. market slowdown and Honduran management problems.

## **F. Foreign Direct Investment Statistics**

In Honduras, figures for investment in the maquila industry are kept separately from figures for investment in the rest of the economy. Table 1 below shows the flows of FDI into Honduras in recent years, excluding the maquila industry. According to the Central

Bank of Honduras, total flows of non-maquila investment in 2002 totaled USD 142.9 million, down 27 percent from 2001. The United States supplied 54.5 million, or 38 percent, of this investment. A breakdown of this investment by industry was not available.

**TABLE 1**  
**HONDURAS: FLOWS OF FOREIGN DIRECT INVESTMENT BY COUNTRY,**  
**NOT INCLUDING THE MAQUILA SECTOR**  
**(In Millions of U.S. Dollars)**

<b>COUNTRY</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
United States	64.2	52.6	54.5
Canada	36.1	15.1	18.1
El Salvador	7.9	9.2	11.8
Costa Rica	21.2	24.1	9.8
Panama	15.1	18.1	8.8
Italy	13.6	7.6	6.2
Guatemala	11.1	10.8	6.0
Spain	7.8	9.8	5.4
United Kingdom	15.0	4.3	4.8
Japan	0.0	1.2	1.2
Switzerland	-4.1	-1.3	0.5
Mexico	-0.1	0.2	0.2
Germany	0.2	0.2	0.2
Other	94.1	43.1	15.2
<b>TOTAL</b>	<b>282.0</b>	<b>195.0</b>	<b>142.9</b>

Source: Central Bank of Honduras

**TABLE 2**  
**HONDURAS: GDP AND FOREIGN INVESTMENT FLOWS,**  
**NOT INCLUDING THE MAQUILA SECTOR**  
**(In Millions of U.S. Dollars)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>
GDP	5,952.1	6,248.4	6,389.7
FDI Flows	282.0	195.0	142.9
FDI Flows as percentage of GDP	4.7	3.1	2.2

Source: Central Bank of Honduras

#### Textile Sector Statistics

In the textile sector, total accumulated investment reached USD 1.56 billion in 2002, up from 1.421 billion in 2001 and 1.237 billion in 2000. A detailed breakdown of investment by country of origin for 2002 was not available; however, Table 3 provides this information for the year 2001, and Table 4 shows investment origin by number of companies established (not dollar value of investment) for 2002.



**TABLE 3**  
**HONDURAS: ACCUMULATED INVESTMENT IN MAQUILA SECTOR, 2001**  
(In Millions of U.S. Dollars)

	<b>Amount (USD millions)</b>	<b>Percent of Total</b>
Honduras	670.1	47.1
U.S.	370.2	26.0
Korea	145.5	10.2
Hong Kong	43.8	3.1
Taiwan	55.2	3.9
China	33.8	2.5
Singapore	18.8	1.3
Canada	49.2	3.5
Other	35.0	2.5
<b>Total</b>	<b>1421.6</b>	<b>100.0</b>

Source: Honduran Maquila Association

**TABLE 4**  
**HONDURAS: INVESTMENT ORIGIN IN MAQUILA SECTOR, 2002**  
(Number of Companies Established)

	<b>Number of Companies</b>	<b>Percent of Total</b>
U.S.	87	40
Honduras	67	31
Korea	33	15
Hong Kong	9	4
Taiwan	4	2
Other	17	8
<b>TOTAL</b>	<b>217</b>	<b>100</b>

Source: Honduran Maquila Association

There are no records kept on Honduran investment abroad.

### **F.1. Major Foreign Investors**

The following is a partial list of foreign firms and franchises of foreign firms operating in Honduras, with a description of the type of investment and country of origin.

Investor	Country	Type of Investment
Agro Internacional de Honduras	U.S.	Agricultural products
Alpha-Graphics	U.S.	Printing services
Alberti Food Co.	U.S.	Food products

Alimentos Concentrados Nacionales	U.S.	Veterinary food
American Airlines	U.S.	Air services
Americar	U.S.	Car distributors
America's Favorite Chicken	U.S.	Fast food
American Home Assurance Co.	U.S.	Insurance services
American International Group	U.S.	Insurance services
Americatel	U.S.	Telecommunications
Antonino's Pizza	U.S.	Fast food
Applewoods	U.K.	Cosmetics
Applebee's	U.S.	Restaurant
Arthur Andersen Consulting	U.S.	General Business
Astaldi, s.p.a.W.A.	ITA	Engineering services
Azucarera "La Grecia"	Guatemala	Sugar mill
BAT Industries PLC	U.K.	Tobacco products
Bay Island Fish Co.	U.S.	Seafood
Bayer	Germany	Pharmaceutical products
Benetton	ITA	Casual clothing
Bennigan's	U.S.	Restaurant
Best Western Hotel	U.S.	Hotel
Bojangles	U.S.	Restaurant
Breakwater Resources Corp.	CAN/U.S.	Mining
Bristol Myers Squibb	U.S.	Beauty products
Budget Rent a Car	U.S.	Car rental
Burger King Inc.	U.S.	Fast food

Candy Bouquet	U.S.	Candy Store
Cargill, Inc.	U.S.	Animal feed, poultry & meat processing
Castle & Cooke, Inc.	U.S.	Bananas and other Agricultural products; Bottling and brewing
Caterpillar Tractors	U.S.	Spare parts, accessories
Cerveceria Hondurena, S.A.	U.S.	Soft drinks and beers
Chestnut Hill Farms	U.S.	Agricultural products
Chiquita Brands International	U.S.	Bananas and other Agricultural products; plastic products manufacturing
Church's Chicken	U.S.	Fast food
Cinemark	U.S.	Entertainment
Citibank	U.S.	Banking and financial services
Citrus Development Corp.	U.S.	Citrus production and processing
Colgate-Palmolive	U.S.	Personal care products
Congelados Holanda	Mexico	Ice cream
Continental Airlines	U.S.	Air services
CPC International	U.S.	Corn starch
Crowley American Transport	U.S.	Ocean freight services
Crowne Plaza Hotel	U.S.	Hotel services
Cultivos Marinos	U.S.	Shrimp farm
Cybex	U.S.	Health & fitness
Daimler Crysler Corporation	U.S.	Cars
Demahsa	Mexico	Corn flour
DHL	U.S.	Air freight services
Domino's Pizza	U.S.	Fast food
Dos Pinos	Costa Rica	Ice cream and milk products

Dry Cleaning	USA	U.S. Dry cleaning services
Empacadora Cortes, S.A.	U.S.	Meat production; packing
Electrical & Consulting	U.S.	Engineering Petroleum Training Programs Services, Inc.
Elektra	Mexico	Household goods/appliances
Ernst & Young International	U.S.	Accounting & auditing services
Espresso Americano	U.S.	Fast food
Exxon	U.S.	Petroleum products marketing
Federal Express	U.S.	Air freight svcs.
Five Star Mining	U.S.	Mining exploration
From the Ground Up /Tippman	U.S.	Trading and consulting
G.B.M. de Honduras	U.S.	Computer services
Glamis Gold, Ltd.	U.S.	Gold mining
Global One Communication	U.S.	Telecommunications
Gold's Gym	U.S.	Health & fitness
Grey Advertising Inc.	U.S.	Advertising services
Grupo Granjas Marinas	U.S.	Shrimp farms
H.B. Fuller	U.S.	Adhesives; paints
Hertz Rent a Car	U.S.	Car rental
Holiday Inn Hotel	U.S.	Hotel
Hotel Intercontinental /Camino Real (Grupo Roble)	El Salvador	Hotel
Hotel Princess	Guatemala	Hotel
House of Windsor	U.S.	Tobacco
IBM	U.S.	Business machines; Computer software

Industrial Engineers, Inc.	U.S.	Repair & construction, naval vessels
Kimberly-Clark	U.S.	Paper products; Pharmaceutical products
KPMG Peat Marwick	U.S.	General business consultants
La Costena	Mexico	Canned foods
Little Caesar's Pizza	U.S.	Fast food
Lloyd's Bank PLC	U.K.	Banking services
Lucent Technologies	U.S.	Telecommunications
Mail Boxes, etc.	U.S.	Courier services and copy center
Martinizing	U.S.	Dry cleaning services
McDonald's	U.S.	Fast food
McCann Erickson	U.S.	Advertising; publicity
Midas International	U.S.	Automotive parts & Services
Motorola	U.S.	Telecommunications
Moore Business Forms	U.S.	Business forms
Multiplaza Malls (Grupo Roble)	El Salvador	Shopping center chain
Nestle Products	Switzerland	Food products
Oil Butler	U.S.	Oil change
Oracle	U.S.	Software
Pakmail	U.S.	Packaging and Courier Services
Pan Bimbo	Mexico	Bread products
Pan American Life Ins. Co.	U.S.	Life insurance
Papa John's	U.S.	Fast food
Parker Tobacco	U.S.	Cigars
Payless	U.S.	Footwear
Paysen	Germany	Pharmaceutical products

Peat, Marwick, & Mitchell	U.S.	Accounting and auditing services
Phelps-Dodge	U.S.	Electric wire & Cable manufacturing
Pizza Hut International	U.S.	Fast food
Pollo Campero	Guatemala	Fast food; Animal feed; Poultry processing
Popeye's	U.S.	Fast food
PriceSmart	U.S.	Warehouse stores
Price Waterhouse	U.S.	Accounting & auditing services
Quick Internet	U.S.	Telecommunications, internet services
R. Rodriguez y Asociados	U.S.	General business consulting
Radio Shack	U.S.	Electrical Appliances
RJR-Nabisco	U.S.	Food products
Ruby Tuesday's	U.S.	Restaurant
Sabritas	Mexico	Snacks
Scott Paper, Inc.	U.S.	Paper products
Seaboard Marine Corp.	U.S.	Winter fruits & vegetables; aquaculture; ocean freight services
Sealand Service, Inc.	U.S.	Ocean freight services
Sears	U.S.	Household goods
Select	U.K.	Convenience store
Shell	U.K./Holland	Petroleum products marketing
Siemens	Germany	Telecommunications
Smith-Kline Beecham	U.K.	Pharmaceutical
Sprint	U.S.	Telecommunications
Standard Fruit Co.	U.S.	Tropical fruits
Star Mart	U.S.	Convenience store

Stewart & Stevenson	U.S.	Electricity generation
Subway	U.S.	Fast food
TAHSA	U.K.	Tobacco
TACA	El Salvador	Air services
TCBY	U.S.	Fast food
Technology Research Corp.	U.S.	Electrical supplies
Texaco	U.S.	Petroleum products marketing
TGI Friday's	U.S.	Restaurant
3M	U.S.	Office supplies
Tony Roma's	U.S.	Restaurant
Tropical Gas Company	U.S.	Appliance and other equipment
Truly International	U.S.	Pest control
Unilever	U.K./Holland	Cleaning Products, Beverages, Food
United Marketing (Unimerc)	U.S.	Marketing services
United Parcel Services	U.S.	International Courier
United Technologies Automotive	U.S.	Automobile Electronics assembly
U.S. Tobacco	U.S.	Cigars
Van Ommeren-Ceteco	Netherlands	Trading/retailing
Wellington Hall Caribbean, Inc.	U.S.	Furniture
Wendy's International	U.S.	Fast food
Witten International	U.S.	Apparel
Xerox Corp.	U.S.	Business machine sales & services

## **VIII. TRADE AND PROJECT FINANCING**

### **A. Description of Banking System**

The Honduran banking system, currently comprised of 20 private banks, is considered weak and in need of further consolidation. The Honduran financial system also includes financial intermediaries, security exchanges, brokerages, credit operators, and foreign exchange houses. Most of the commercial banks were originally founded to service the financing needs of family-run business conglomerates, rather than provide full banking services to the public in a transparent manner. The system has been criticized for permitting excessive amounts of unsecured lending to major stockholders or bank principals.

Total assets in the Honduran financial system in 2001 were \$4.2 billion or 74 percent% of GDP. Banks account for 90% of total assets in the financial system. The minimal capital requirement to operate a bank is lempiras 100 million (\$6.1 million). Liquidity in the system increased by 12.65 percent% in 2001. Average interest rates in the banking system decreased from 29 percent% in 1999 to 23 percent% in 2001.

The soundness and reliability of the Honduran financial system were tested in 1999 when one major bank, Bancorp, collapsed due to fraud and mismanagement. Regulators in the National Banking and Insurance Commission closed the bank and Congress created a deposit insurance fund to compensate depositors and preserve the financial system's stability. The Temporary Law of Financial Stabilization, valid until September 2003, guarantees that all bank deposits will be insured by the State regardless of the sum. After September 2003, the government's deposit insurance will cover maximum deposits of lempiras 150,000 (\$9,000). As in other countries, this deposit insurance only covers qualified deposits in banks, not in uninsured financial institutions.

In June 2001, Banhcreser was forcibly liquidated after failing to meet the minimum capital requirements and missing targets in the binding action plan required under a special supervision program. In May 2002, the National Commission on Banking and Insurance (CNBS) intervened two banks, Sogerin and Capital, and placed them under the supervision of FOSEDE, Honduras' deposit insurance institution.

There are few legal barriers to entry in the banking sector, but the small size of the market and weak financial situation have discouraged greater foreign investment. Only two banks had majority foreign ownership in 2001 (Citibank and Lloyds) accounting for 5.7 percent% of bank capital.

### **B. Foreign Exchange Controls Affecting Trade**

Until early 1990, Honduras maintained a fixed official exchange rate of 2 lempiras (LPS) to the U.S. dollar. In March 1990, with the passage of a sweeping economic reform package, the Central Bank of Honduras devalued the lempira vis-a-vis the dollar, and later permitted it to float freely. This system of currency valuation, the inter-bank rate of exchange, has been used for all purposes, except payment of official debt, which was maintained at the LPS 2/USD \$1 rate. The inter-bank rate of exchange was initially set



at LPS 4/USD \$1, and as of December 2002 was LPS 17.52/USD \$1.

The Foreign Exchange Repatriation Law, passed in September 1990, requires all Honduran exporters, except those operating in free-trade zones and export processing zones, to repatriate 100 percent% of their export earnings through the commercial banking system. Commercial banks were allowed to use 70 percent% of export earnings to meet their clients' foreign exchange needs. The other 30 percent% had to be sold to the Central Bank at the prevailing inter-bank rate of exchange.

However, in a move to stop the continued devaluation of the lempira against the U.S. dollar, the Central Bank, in 1994 established an auction system to regulate the allocation of foreign exchange more tightly and improve transparency of foreign exchange transactions. Commercial banks are now required to sell 100 percent% of repatriated foreign exchange earnings to the Central Bank -- except for exporters operating in free trade zones and export processing zones as well as remittances -- which in turn auctions up to 60 percent% of them daily in the open market.

### **C. General Financing Availability**

There are no government restrictions on foreign investors' access to local credit markets. However, the local banking system is conservative and generally extends only limited amounts of credit. Interest rates declined substantially in 2001 and 2002, but remain high. Local banks should not be considered a significant source of start-up capital for new foreign ventures, unless they use specific business development credit lines made available by bilateral or multilateral financial institutions, such as the Central American Bank for Economic Integration. Loans from banks tend to be short-term, with substantial collateral and/or guarantee requirements. The legal reserve requirement on commercial bank deposits is 15 percent% for local currency deposits and 50 percent% on foreign exchange deposits.

### **D. How to Finance Exports/Methods of Payment**

Cash in advance and irrevocable letters of credit, confirmed by U.S. banks, are the most appropriate methods of payment for U.S. exporters selling to Honduran firms.

### **E. Types of Available Export Financing & Insurance**

The United States Export-Import Bank (Ex-Im Bank) provides guarantees of working capital loans for U.S. exporters, guarantees the repayment of loans, or makes loans to foreign purchasers of U.S. goods and services. Ex-Im Bank also provides credit insurance that protects U.S. exporters against the risks of non-payment by foreign buyers for political or commercial reasons. Ex-Im Bank does not compete with commercial lenders but assumes the risks they cannot accept. It must always conclude that there is reasonable assurance of repayment on every transaction financed.

At present, no local bank has direct access to Ex-Im Bank's credit lines. These lines, however, are available through U.S. commercial banks. Ex-Im Bank's credit facilities available to Honduras include the Working Capital Guarantee Program, Exporter Insurance Program, Bank Letter of Credit Policies and Financial Institution Facilities. In February 1999, Ex-Im Bank signed a \$50 million export facilitation facility for Central America with the Central American Bank for Economic Integration (CABEI). Also in

February 1999, OPIC and Citibank signed an agreement to establish a \$200 million investment facility for Central America and the Caribbean that will help meet the need for medium and long-term capital in the region. This facility will be in place until 2009.

#### **F. Project Financing Available**

Long-term financing is generally available only through special lines of credit that selected commercial banks have with Central American Bank for Economic Integration. The programs that are available from this institution concentrate on export projects, including export processing zones and industrial parks.

The U.S. Department of Agriculture (USDA) provides credit guarantees for a wide range of agricultural and products exported from the United States, as well as export bonuses for selected products under the Export Enhancement Program and the Dairy Export Incentive Program. The USDA financing programs are aimed at encouraging U.S. agricultural exports.

The U.S. Small Business Administration (SBA) provides financial and business development assistance to encourage and help small business develop export markets. SBA offers both loans and loan guarantees.

The U.S. Trade Development Agency (TDA) provides grant loans for pre-feasibility studies overseas on projects with high U.S. products and services export potential.

Assistance from the Overseas Private Investment Corporation (OPIC) is available for new investments, privatization, and for expansions and modernization of existing plants sponsored by U.S. investors. The investors must contribute additional capital for modernization and/or expansion to be eligible. Financing is not available for projects that can secure adequate financing from commercial sources.

#### **G. List of Commercial Banks with Correspondent U.S. Banking Arrangements**

##### ***Banco Atlantida, S.A.***

Guillermo Bueso, Executive President  
P.O. Box 3164  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-1742, 232-1050  
Fax: (504) 232-7860  
[Http://www.bancatlan.hn](http://www.bancatlan.hn)  
E-mail: info@bancatlan.hn

##### ***Banco Grupo El Ahorro Hondureño (BGA)***

Jorge Alberto Alvarado, President  
P.O. Box 344 and 3185  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-0909; 800-222-2020  
Fax: (504) 232-6229; 232-6230  
E-mail: bancahsa@bancahsa.hn  
E-mail: bancahorro@bancahorro.hn  
[Http://www.bancahorro.hn](http://www.bancahorro.hn)

***Banco Mercantil, S.A. (BAMER)***

José Lamas, President  
Jacobo Atala, General Manager  
P.O. Box 116  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-0006  
Fax: (504) 232-3137  
E-mail: bamer@gbm.hn  
[Http://www.bamernet.hn](http://www.bamernet.hn)

***Banco Financiera Comercial Hondureña, S.A. (FICOHSA)***

Camilo Atala, Executive President  
Javier Atala, General Manager  
P.O. Box 3858  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-6410  
Fax: (504) 239-8785  
E-mail: ficobanc@fichsa.hn  
[Http://www.fichsa.hn](http://www.fichsa.hn)

***Banco de Occidente, S.A.***

Jorge Bueso Arias, President  
Manuel Bueso, General Manager  
P.O. Box 3284  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 237-0310  
Fax: (504) 237-0486  
E-mail: bancocci@cybertel.hn

***Banco de Honduras, S.A. (CITIBANK)***

Maximo Vidal, President  
P.O. Box 3434  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-6122  
Fax: (504) 232-6167  
[Http://www.citibank.com](http://www.citibank.com)  
E-mail: Leticia.ochoa@citicorp.com

***Banco del País, S.A.***

Roberto Bueso, President  
Ernesto Emilio Carias, Executive Vice-President  
P.O. Box 1075  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-0460  
Fax: (504) 239-5707  
<http://www.banpais.hn>  
E-mail: Alexm@banpais.hn

***Banco Financiera Centroamericana, S.A. (FICENSA)***

Roque Rivera, President  
P.O. Box 1432  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-1661  
Fax: (504) 238-1630  
[Http://www.ficensa.com](http://www.ficensa.com)  
E-mail: [webmaster@ficensa.com](mailto:webmaster@ficensa.com)

***Banco Hondureño del Café (BANHCAFE)***

Rene Ardón Matute, General Manager  
P.O. Box 583  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-8191, 232-8306  
Fax: (504) 232-8782  
E-mail: [bcafeinf@hondutel.hn](mailto:bcafeinf@hondutel.hn)  
<http://www.bancafe.hn>

***Banco de los Trabajadores, S.A.***

Raul Solís Dacosta, President  
Jose Ramón Morales, General Manager  
P.O. Box 3246  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-4342, 238-0017  
Fax: (504) 238-0077

***Banco Futuro***

Jaime Chávez, President  
Roger Zabala, General Manager  
P.O. Box 3325  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 237-4000  
Fax: (504) 237-1835  
[Http://www.futuro.2hn.com](http://www.futuro.2hn.com)  
E-mail: [cavila@futuro.hn](mailto:cavila@futuro.hn)  
E-mail: [rogerzabala@bancofuturo.hn](mailto:rogerzabala@bancofuturo.hn)

***Banco de la Exportación, S.A. (BANEXPO)***

René Morales, President  
Rene Deserra, Executive Director  
P.O. Box 3988  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-4256  
Fax: (504) 239-4265  
E-mail: [banexpo@netsys.hn](mailto:banexpo@netsys.hn)

***Banco de la Producción (BANPRO)***

Maria del Carmen Cantor, President  
P.O. Box 5151  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-2800

Fax: (504) 239-2811  
[Http://www.banpro.hn2.com](http://www.banpro.hn2.com)  
E-mail: banpro@banprohn2.com

***Banco del Comercio, S.A. (BANCOMER)***

Bueso Arias, President  
Ernesto Leardezadal, General Manager  
P.O. Box 160  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 553-3600  
Fax: (504) 553-3128  
[Http://www.bancomer.hn](http://www.bancomer.hn)  
E-mail: rinforma@bancomer.hn  
E-mail: rinforma@netsy.hn

***Banco Continental, S.A.***

Jaime Rosenthal, President  
P.O. Box 390  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 550-0880  
Fax: (504) 550-2750  
E-mail: [fmendoza@continental.hn](mailto:fmendoza@continental.hn)  
[www.bancon.hn](http://www.bancon.hn)

***Banco de las Fuerzas Armadas, S.A. (BANFFAA)***

Carlos Ernesto Canizales, President  
P.O. Box 877  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-0164  
Fax: (504) 231-1769  
[Http://www.banffaa.hn](http://www.banffaa.hn)  
E-mail: banffaa@simon.intertel.hn

***Lloyd's Bank***

Paul McEvoy, General Manager  
P.O. Box 3136  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 236-6864  
Fax: (504) 236-9211  
E-mail: lloydsbank@davidintertel.hn

***Banco SOGERIN, S.A.***

Arturo Aleman Bermudez, President  
P.O. Box 440  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 550-0712, 550-3888  
Fax: (504) 550-0943  
E-mail: llopezp@6565.yahoo.com  
E-mail: [soglalc@hondutel.hn](mailto:soglalc@hondutel.hn)

***Banco Capital***

Manuel Gutierrez, Executive President  
Ricardo Acosta, General Manager  
P.O. Box 3815  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-6090; Fax: (504) 238-6094  
E-mail: [mflores@capital.hn](mailto:mflores@capital.hn)  
<http://www.capital.hn>

***Banco Credomatic***

Alberto Galeano, President  
P.O. Box 3725  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-7220  
Fax: (504) 237-5113  
E-mail: [mscomh@ns.gbm.hn](mailto:mscomh@ns.gbm.hn)  
<http://www.credomatic.com>

***Banco Promérica***

Colonia Palmira, Ave. Rep. De Chile # 804  
Tel: (504) 220-4626  
Fax: (504) 220-4644

## **IX. BUSINESS TRAVEL**

### **A. Business Customs**

In Honduras, written contracts are used as a means to formalize verbal agreements between trusted colleagues. Unlike the United States, personal relationships are important in creating and maintaining business ties and avoiding possible disputes. As a result, Honduran business people build lifetime relationships and establish close links with clients or customers, creating a reciprocal feeling of obligation and a mutual desire of assistance.

Since Hondurans are hospitable and gracious hosts, the closing of a business deal is similar to a social activity. As a result, many Americans find that going straight to the point when negotiating with Hondurans is not well - received. When meeting with Honduran counterparts, it is often best to move into business matters gradually. After the courtesy formalities have been taken care of, meetings generally turn to a more concrete discussion of business. Hence, unlike the United States, business negotiations tend to be slower and more drawn out in Honduras, placing more emphasis on relationships than conducting a business transaction.

As far as punctuality is concerned, Hondurans tend to be more relaxed than Americans. Waiting to be received for meetings is not unusual. While Americans take pride on timeliness, keeping a schedule is not as important in Honduras. Hence, it is necessary to understand that this approach to scheduling and punctuality is a cultural aspect of Honduras, and should not be taken as discourtesy or disinterest.

## **B. Travel Advisory & Visas**

One important issue to keep in mind when visiting Honduras is security. Street crime is a principal concern, with theft, pick pockets, and armed robberies in urban areas on the rise. In addition, armed car and home robberies have been a problem. As a precaution, one should avoid wearing excessive jewelry and carrying valuables or large sums of money when walking in downtown areas. In the event that one's passport should be stolen or lost, or should one experience a threatening situation, it should be reported immediately to the local police and the US Embassy's security office. For more information, please visit <http://www.usmission.hn>.

One of the main requirements for United States citizens when entering Honduras is a valid, passport. It is not required that bearers of U.S. diplomatic, official, or regular passports possess a visa as long as the visit will not exceed a period of 30 days. For additional information regarding travel to Honduras, please contact the Honduran Embassy in Washington D.C. located at 3007 Tilden Street N.W., Washington D.C. 20008, tel. (202) 966-7702. In addition, Honduran Consulates are located in the following cities: Atlanta, Chicago, Houston, Los Angeles, Miami, New York, New Orleans, San Francisco, San Juan, and Tampa. For additional inquiries, please contact the Honduran Embassy's email address: [embhondur@aol.com](mailto:embhondur@aol.com).

### 1. Visas for Investors

Individuals interested in investing in Honduras should approach the nearest Honduran consulate or the Honduran Embassy in Washington. If already in Honduras, one may apply to the General Immigration Directorate for a residence visa.

According to Executive Order No. 8, the following procedures have been developed to facilitate the entrance into Honduras for foreigners who wish to invest in agricultural, agribusiness, industrial, tourism and export projects, in accordance with government promotion and investment policies and the Export Processing Zone Law:

Art. 3: All citizens of countries with whom the Government of Honduras has established diplomatic relations are eligible for investors' visas. Others may also be eligible if they are involved in an investment initiative proposed by one of the following local institutions: Honduran Private Enterprise Council (COHEP), Foundation for Investment and Development of Exports (FIDE), National Industry Association (ANDI), and National Chambers of Commerce and Industry.

Art. 4: The classification of the "Visa for Investors" is as follows:

- a) Investor's Type 1 Visa: issued to the investors and their dependents.
- b) Investor's Type 2 Visa: issued to technicians and specialized workers, their spouses and their economic dependents.

Art. 6: The application for the visa must be submitted personally or by a legal representative, and must contain the following specific information:

- a) Complete name of the applicant.
- b) Nationality and permanent residence.
- c) Purpose of the visit.

The following documents must be included in the application:

- a) Current passport.
- b) Bank or Commercial references.
- c) Evidence or proof of the investor's intentions.

Art. 8: The bearer of a Type 1 visa will be granted a three-month visa to remain in the country. This visa may be extended up to a maximum period of one year. Those with a Type 2 visa will be authorized an initial period of one month, which can be extended up to a maximum of six months.

Art. 12: Bearers of such visas will be able to receive all the benefits established under the Export Processing Zone Law.

## 2. Residence

The application for residence may be done outside of Honduras through a Honduran consulate, or through the Ministry of Government and Justice. The residence registration process takes about three to four months. Among the documents required to apply for Honduran residence are:

- a) Health Certificate (original and copy).
- b) Police Department Certificate (original and copy).
- c) Letter of Employment (original and copy).
- d) Two Photos.

The residence card must be renewed every year.

## 3. Work Permit

The following procedures are required in order to obtain a work permit in Honduras:

- a) Obtain Honduran residence. While the application for residence is in process, a temporary work permit can be requested through the Ministry of Labor.
- b) Provide the following information to the Ministry of Labor:
  - 1) A list of names of all the employees working for the company and their corresponding nationalities.
  - 2) A letter of employment and the type of job offered.
  - 3) A work contract stating the position the foreign employee will execute.

## **C. Holidays**

The following list of Honduran and American holidays will be observed as a day of leave for all Embassy employees during 2004:

<b><i>Date</i></b>	<b><i>Day of the Week</i></b>	<b><i>Holiday</i></b>
January 1	Thursday	New Year's Day
January 19	Monday	Martin Luther King's



February 16	Monday	President's day
April 8	Thursday	Holy Thursday
April 9	Friday	Good Friday
April 19	Monday	Day of the Americas
May 1	Saturday	Honduran Labor Day
May 31	Monday	Memorial Day
July 4	Sunday	Independence Day
<i>(Embassy will be closed July 5)</i>		
September 6	Monday	Labor Day
September 15	Wednesday	Central American Independence Day
October 11	Monday	Columbus Day
October 18	Monday	Discovery of America
October 25	Monday	Honduran Armed Forces Day
November 11	Thursday	Veterans Day
November 25	Thursday	Thanksgiving Day
December 25	Saturday	Christmas Day
<i>(Embassy will be closed December 24)</i>		

## **D. Business Infrastructure**

### **1. Transportation**

(A description of Honduran airports can be found in Chapter 2, Section E.1 Infrastructure)

Passenger and air - freight services are generally reliable. Three gateway cities (Houston, Miami, and New Orleans) are only 2 ½ hours flying time from Honduras. Direct flights between Honduras and cities in North and Central America are provided by the following international airlines: American Airlines, Continental Airlines, Sol Air, COPA, and TACA Airlines (including LACSA and AVIATECA). Isleña Airlines, which belongs to Grupo TACA, connects Tegucigalpa, San Pedro Sula, and La Ceiba with the north coast and the Bay Islands. Other domestic commercial airlines are Rollins Air and Aerolineas Sosa. Charter service and aircraft rentals (small single- and twin-engine equipment) are available from private flying services operating out of Tegucigalpa, San Pedro Sula, and La Ceiba. Among the airlines having local representation and offering connections to various destinations worldwide are Lufthansa, KLM, Air France, Varig, British Airways, Alitalia, and Japan Airlines (JAL). In addition, Línea Aérea de España (Iberia) provides connecting flights to Europe. Air travelers leaving Honduras are required to pay \$25.00 and \$2.00 departure and airport taxes, respectively.

Passenger ground transportation, including comfortable bus service, is also available to various cities in the country, as well as to some Central American destinations. Although the cabs are often run-down, taxi service is available in the downtown areas of Tegucigalpa and San Pedro Sula and can be hired on an hourly basis. One of the best options for foreign visitors is calling a Radio Taxi (225-5563), a reliable cab service available in the cities of Tegucigalpa and San Pedro Sula. Major hotels and airports in Tegucigalpa and San Pedro Sula offer shuttle service for two to three times the normal rates. Taxis are not metered, so negotiation of the fare before entering is strongly advised. In addition, several car rental companies are also available.

## 2. Language

Spanish is the official language of Honduras. A substantial number of Honduran professionals and business executives speak English, and many high government officials and private sector leaders were educated in the United States.

## 3. Communications

Telephone service is adequate. Direct-dial, long-distance calling within Honduras and to the U.S. and several other countries is available. Costs are based on the destination, and rates are available through operator assistance. Night rates are charged from 10 p.m. to 7 a.m. daily. Direct-dial calls placed from the continental U.S. to Honduras are considerably cheaper. In May 2001, Hondutel introduced a \$.50 temporary promotional rate to the U.S. By comparison, a \$.24 connection charge on incoming U.S. calls results in U.S.- Honduras rates of \$0-.45-\$0-.65 per minute. The company plans to lower international rates permanently this year.

On the other hand, MCI and Sprint credit card holders may also use the less costly "USA-Direct" service. Multimedia and data transmission services, such as fax, electronic mail, internet, and cellular telephones, are also available in the country. AT&T is under negotiations to reopen its services in Honduras.

Radio reception is satisfactory. U.S.-style music is featured on several stations, but news is exclusively in Spanish. A good short-wave radio is necessary to receive American stations and international broadcasts, including the Voice of America (VOA). The Embassy's Public Affairs Section has schedules and program information.

Twelve local TV stations can be seen in Honduras, all with Spanish-language programming. Some local companies offer cable service with a wide range of stations, including major U.S. networks, CNN and entertainment-oriented stations.

Four daily and one weekly Spanish-language newspapers, along with one weekly English newspaper are published in Tegucigalpa and San Pedro Sula. Major sources of English-language news are the Latin American air express editions of the Miami Herald, the New York Times, the Wall Street Journal, the Washington Post, and USA Today which arrive the day of, or day after, publication. Overseas editions of Time and Newsweek are available at several newsstands or by subscription.

## 4. Housing

Spacious housing and apartment complexes are available throughout good residential areas in the country. Domestic maid services are also available at a relatively low cost. Numerous real estate brokerage firms and agents provide assistance to foreigners seeking local housing.

Visitors can choose from a wide variety of suitable hotel and bed and breakfast accommodations in major cities and tourist areas of Honduras. Among the most popular hotels in the capital city, Tegucigalpa, are the Real Inter-Continental, Clarion, Honduras Maya, and Hotel District Plaza San Martín. In San Pedro Sula, most business travelers stay at the Real Inter-Continental, Princess, Holiday Inn, Copantl Sula, Hotel Los

Próceres and Microtel Inn & Suites. Hotel construction projects in the country include the Marriott in Tegucigalpa.

## **Tegucigalpa**

### ***Hotel Real Inter Continental***

Avenida Roble, contiguo a Mall Multiplaza  
Tegucigalpa, Honduras  
Tel (504) 231-2727  
Fax (504) 231-2828  
Email: [Tegucigalpa@gruporeal.com](mailto:Tegucigalpa@gruporeal.com)  
Website: [www.gruporeal.com](http://www.gruporeal.com)

### ***Clarion Hotel Real Tegucigalpa***

Col. Alameda, Ave. Juan Manuel Galvez, #1521  
P.O. Box 808  
Tegucigalpa, Honduras  
Tel. (504) 232-1888; 232-2253  
Fax. (504) 232-0399  
Email: [clarion@chi.hn](mailto:clarion@chi.hn)  
Website: [www.gruporeal.com](http://www.gruporeal.com)  
[www.choicehotels.com](http://www.choicehotels.com)

### ***Hotel Honduras Maya***

Ave. República de Chile, Col. Palmira  
P.O. Box 1856  
Tegucigalpa, Honduras  
Tel. (504) 220-5000  
Fax. (504) 220-6000  
Email: [hondurasmaya@globalnet.hn](mailto:hondurasmaya@globalnet.hn)  
Website: [www.hondurasmaya.hn](http://www.hondurasmaya.hn)

### ***Hotel Plaza San Martín***

Fte. Plaza San Martín, Col. Palmira  
P.O. Box 864  
Tegucigalpa, Honduras  
Tel. (504) 235-8268  
Fax. (504) 231-1366  
Website: [www.plazasanmartinhotel.com](http://www.plazasanmartinhotel.com)

### ***Hotel Plaza del Libertador***

Fte. Hotel Plaza San Martín  
Plaza San Martín  
Tegucigalpa, Honduras  
P.O. Box 3983  
Tel. (504) 220-4141  
Fax. (504) 222-4242  
Email: [libertad@netsys.hn](mailto:libertad@netsys.hn)  
Website: [www.hotelp plazadellibertador.com](http://www.hotelp plazadellibertador.com)

***Hotel Plaza Del General***

Colonia Palmira, frente Plaza San Martín  
P.O. Box 3983

Tegucigalpa Honduras

Tel. (504) 220-7272

Fax. (504) 220-7282

<http://www.hotelplazadelgeneral.com>

***Portal Del Angel***

Col. Palmira, Ave. Rep. Del Perú 2115

Tegucigalpa, Honduras

Tel. (504) 239-6538 / 239-6547 / 235-8841

Fax. (504) 235-8839

E-mail: [Hotel@portaldelangel.com](mailto:Hotel@portaldelangel.com)

Website: [www.portaldelangel.com](http://www.portaldelangel.com)

**San Pedro Sula*****Hotel Real Inter-Continental***

Centro Comercial Multiplaza 7 ave., 12 cll-A, SO

San Pedro Sula, Cortés

Tel. (504) 553-0000

Fax. (504) 550-6255

Email: [sanpedrosula@interconti.com](mailto:sanpedrosula@interconti.com)

Website: [www.gruporeal.com](http://www.gruporeal.com)

***Hotel Princess***

10 calle Ave. Circunvalación, S.O.

San Pedro Sula, Cortes

P.O. Box 4861

Tel. (504) 556-9600

Fax. (504) 550-9595

Email: [hotelprincess@globalnet.hn](mailto:hotelprincess@globalnet.hn)

Website: [www.hotelprincess.com](http://www.hotelprincess.com)

***Hotel y Club Copantl***

Col. Los Arcos, Blvd. del Sur

P.O. Box 1060

San Pedro Sula, Cortés

Tel. (504) 556-8900 / 556-6412

Fax. (504) 556-7890

Email: [copantl2@copantl.hn](mailto:copantl2@copantl.hn)

***Hotel Holiday Inn***

Blvd. Morazán 1 cll., 10-11 ave., NO

San Pedro Sula, Cortés

Tel (504) 550-8080

Fax (504) 550-5353

Email: [gerencia@holiday-inn-sps.com](mailto:gerencia@holiday-inn-sps.com)

**Hotel Los Próceres**

17-18 ave., 2 cll. Bo. Rio de Piedras

San Pedro Sula, Cortés

Tel. (504) 557-4457 / 550-3636

Fax (504) 555-3620

Email: [proceres@netsys.hn](mailto:proceres@netsys.hn)

<http://www.losproceres.com>

**Microtel Inn & Suites**

Km 4, Blvd. Al Aeropuerto

San Pedro Sula, Honduras

Tel. (504) 559-0300

Fax (504) 559-0303

Email: [Microtel@sulanet.net](mailto:Microtel@sulanet.net)

<http://www.hotelhonduras.com>

### 5. Climate and clothing

Two of the distinctive characteristics of Honduras are the diversity in weather and topography. While the northern part of the country is basically hot and humid the whole year, the mountainous zone in central Honduras is dryer and cooler. There are two seasons in Honduras: the rainy season from June to November and the dry season from December to May. March and April are particularly hot and dry, with considerable smoke in the air from slash-and-burn agriculture.

Summer clothing is suitable year-round in Tegucigalpa. While Tegucigalpa's weather is tropical by day, it is somewhat cooler in the early morning and evening. Since the months of November to February typically are cooler during the day, a lightweight wool shirt and long sleeves may be worn. Business attire in Tegucigalpa normally consists of coat and tie. Dress is the same for women as in the U.S. However, San Pedro Sula and other areas of the country tend to be more casual.

### 6. Food

A wide selection of restaurants offers continental, oriental, and American cuisine, as well as local specialties. Visitors should eat in hotels or in any modern restaurant. Pizza franchises and many other restaurants have delivery service. Supermarkets and shopping malls are conveniently located and carry a variety of products similar to those sold in the United States.

### 7. Health

Drinking water must be boiled and filtered. Purified water can be purchased in major cities and smaller towns. Fruits and vegetables must be cleaned carefully and meats cooked well. The main health hazards include AIDS, malaria, dengue fever, dysentery, parasites, hepatitis A and B, typhoid, and rabies. There have been reports of cholera as well, although not in epidemic proportions. A malaria suppressant should be taken if traveling to coastal regions or rural areas for extended stays. Heat and sun exposure are also hazards. Take care to use sunscreen and avoid dehydration. Essential medical care service is available in Tegucigalpa, San Pedro Sula, La Ceiba, and

Choluteca. In the countryside, medical care in many cases is very limited and often inaccessible.

Doctors and hospitals often expect immediate cash payment for health services. U.S. medical insurance is not accepted for hospital admission, physician service, or medical testing in Honduras. The Medicare/Medicaid program doesn't provide for payment of medical services outside of the United States. Check with your own insurance company to confirm whether your policy applies overseas, including provision for medical evacuation.

The "Foreign Service Posts: Guide for Business Representatives" is available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel (202) 512-1800; fax (202) 512-2250. Business travelers to Honduras seeking appointments with U.S. Embassy Tegucigalpa officials should contact the Commercial Section in advance by telephone at (504) 238-5114, or by fax (504) 238-2888.

## **X. ECONOMIC AND TRADE STATISTICS**

### **APPENDIX A. Country Profile**

2002 Population (millions): 7.042

2001 Population Growth (Percent): 3.32

Religion: Predominantly Roman Catholic, with a significant Protestant minority

Government System: Democratic Republic

Language: Spanish (Official)

Work Week: Government 40 hours

Private Sector: 44 hours

### **APPENDIX B. Domestic Economy (Statistics provided by the Honduran Central Bank and other official sources)**

	2000	2001	2002	2003e
Nominal GDP (U.S.Dollar in Millions)	6,024	6,403	6,565	6,936
Real GDP growth rate (pct. chg.)/1	5.7	2.6	2.5	3.0-3.5
Per capita GDP/1	1,082	1,075	1,067	953.2
Central Government Spending as pct of GDP	26.9	27.2	24.4	25.8
Inflation/2	10.1	8.8	8.1	7.5-8.0
Central Government Deficit (pct. GDP)	5.0	5.8	4.9	2.9
Unemployment (Open) (pct.)/3	3.5	4.2	4.1	n.a.
Foreign Exchange Reserves (Central Bank) (\$millions); end of period figures	1,022.5	1,104.5	1,235.1	1,235.1
Financial System Reserves (\$Millions)	1,490.4	1,637.7	1,851.7	1,973.9
Average exchange rate for \$1.00	15.01	15.65	16.61	17.429 (Aug)
Debt Service Ratio (Services/Exports) (PCT)	23.2	13.9	13.3	n.a.

USG Economic Assistance (\$millions) (Authorized)	81.0	191.6	81.2	n.a.
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### **APPENDIX C. Trade (\$millions)**

	1999	2000	2001	2002
Total Honduran Exports (Good & Services)	2,446.1	1,220.7	2554.0	594.1 (first quarter)
Total Honduran Imports (Goods & Services)	2,558.0	2867.0	3750.9	1,289.7 (first quarter)
U.S. Merchandise Exports to Honduras /4	1,165.8	1,284.5	1,377.8	NA
U.S. Merchandise Imports from Honduras /4	590.7	442.0	607.6	NA

Notes:

1/ Economic data are based upon Honduran Central Bank figures. 2002 figures are estimates.

2/ Annual cumulative inflation rate.

3/ Open unemployment is low; however, 2001 estimates by the National Institute of Statistics place visible underemployment at 3.3% and hidden underemployment at 35.9%. .

4/ Honduran trade data do not include transactions with the large maquila (apparel assembly plants) sector, which is accounted for as a value-added service. U.S. government data for trade with Honduras is significantly higher.

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***Honduras Institute of Tourism***

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***OAS Permanent Mission***

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**XII. MARKET RESEARCH LIST – MARKET RESEARCH**

**APPENDIX E. Market Research**

A complete list of Department of Commerce Industry Sector Analyses (ISAs) is available on [www.export.gov](http://www.export.gov). For additional questions, please contact the Commercial Department at (504) 236-9320, Ext. 4092 or 4842. Email: [roy.alonzo@mail.doc.gov](mailto:roy.alonzo@mail.doc.gov) and [rossana.lobo@mail.doc.gov](mailto:rossana.lobo@mail.doc.gov)

**APPENDIX F. Trade Event Schedule**

**1. International Buyer Program**

During fiscal year of 2004 (FY04) the Commercial Service office in Honduras will promote the following U.S. International Buyer Program Events:

- MINExpo International, Las Vegas, NV, September 27-30, 2003
- Plastics USA, Chicago, IL, September 28-30, 2003
- Medtrade, Atlanta, GA, October 7-9, 2003
- WEFTEC, Los Angeles, CA, October, 11-15, 2003
- Pack Expo, Las Vegas, NV, October, 13-15, 2003
- CTIA Wireless I.T. & Internet, Las Vegas, NV, October, 22-24, 2003

- Louisiana Gulf Coast Oil Exposition (LAGCOE), Lafayette, LA, October, 28-30, 2003
- Worldwide Food Expo, Chicago, IL, October 29- November 1, 2003
- Automotive Aftermarket Industry Week, Las Vegas, NV, November, 4-7, 2003
- International SHOPA (School, Home, & Office Products Association) Show, Atlanta, GA, November, 11-13, 2003
- International Irrigation Show, San Diego, CA, November, 18-20, 2003
- IAAPA Orlando 2003 Annual Convention and Trade Show, Orlando, FL, November, 19-22, 2003
- International CES, Las Vegas, NV, January, 8-11, 2004
- The International Builders' Show, Las Vegas, NV, January, 19-22, 2004
- PGA Merchandise Show, Orlando, FL, January 29- February 1, 2004
- World Ag Expo, Tulare, CA, February, 10-12, 2004
- SATELLITE, Washington, DC, March, 2004
- Water Quality Association 30<sup>th</sup> Annual Convention and Exhibition, Baltimore, MD, March, 16-29, 2004
- CTIA Wireless, Atlanta, GA, March, 22-24, 2004
- Electric Power, Baltimore, MD, March 30- April 1, 2004
- International Franchise Expo, Washington, DC, April, 2004
- NAB2004, Las Vegas, NV, April, 17-22, 2004
- National Restaurant Association Restaurant, Hotel-Motel Show (NRA Show), Chicago, IL, May, 15-18, 2004
- International Hardware Week, Chicago, IL, April, 18-20, 2004
- Digestive Disease Week, New Orleans, LA, May, 16-19, 2004
- ASTD International Conference and Exposition (ASTD 2004) Washington, DC, May, 16-26, 2004
- American Water Works Association Annual Conference and Exhibition, Orlando, FL, June, 13-17, 2004
- SUPERCOMM, Chicago, IL, June, 20-24, 2004

- Annual Meeting & Clinical Laboratory, Exposition of the American Association for Clinical Chemistry, Los Angeles, CA, July, 25-29, 2004
- MAGIC International (Summer), Las Vegas, NV, August, 2004
- International Baking Industry Exposition, Las Vegas, NV, September, 15-18, 2004

## 2. Trade Missions

Note: Firms should consult the export promotion calendar on [www.export.gov](http://www.export.gov), or contact the post Commercial Section for the latest information or to arrange individual trade programs.

## 3. Fairs

For information regarding scheduled fairs for FY 2003, please contact the Commercial Department at (504) 236-9320, Ext. 4092 or 4842. Email: [rossana.lobo@mail.doc.gov](mailto:rossana.lobo@mail.doc.gov)